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CANADA

**REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS**

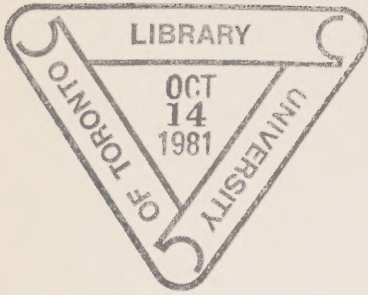
**for the
FISCAL YEAR ENDED MARCH 31
1964**





CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS
for the
FISCAL YEAR ENDED MARCH 31
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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act.

2. In accordance with the requirement of section 70 of the Act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1964. Subsection (1) of the section reads:

"The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1964 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The "Summary of Appropriations, Expenditures and Unexpended Balances by Departments" and the "Summary of Revenue by Main Classifications and Departments", both as included in the 1964 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Standing Committee on Public Accounts

4. On October 29, 1963 the House of Commons referred my Report for the fiscal year ended March 31, 1962 to the Public Accounts Committee. During the First Session of the Twenty-sixth Parliament, the Committee held 13 meetings before it adjourned and on December 19, 1963 presented its Third and Fourth Reports 1963 to the House of Commons on its work up to that time. Following the commencement of the Second Session, the House of Commons on May 22, 1964 again referred my 1962 Report to the Committee together with my Report for the year ended March 31, 1963.

The Committee held its first meeting in the Second Session on May 26, 1964 when, in accordance with its request, I submitted a follow-up report to the Committee on the action

taken on the recommendations contained in its Third and Fourth Reports 1963. In this follow-up report, I informed the Committee that the departments and agencies concerned had taken action on three of its ten recommendations.

The Committee held eleven meetings during the period from May 26, 1964 to June 30, 1964, reporting thereon to the House of Commons in its Fourth Report 1964 which was presented to the House on July 28, 1964. On August 5, 1964 the Committee presented its Fifth Report 1964 to the House covering six meetings held in the month of July when it examined the financial statements of the Canadian Broadcasting Corporation for its 1961-62 and 1962-63 financial years. The Committee resumed its meetings on October 20, 1964 and on that day presented its Sixth Report 1964 to the House. With the assistance of two sub-committees dealing with the Form and Content of the Public Accounts and Surplus Assets Disposal, the Committee concluded its examination of my 1962 and 1963 Reports on November 17, 1964 and presented its Seventh and Eighth Reports 1964 to the House on December 7, 1964.

This is the first time in recent years that the Public Accounts Committee has completed its examination of the Auditor General's Reports to the House of Commons before a succeeding Report has been tabled. As a result, I have had the benefit of its views on a considerable number of outstanding matters which has enabled me not only to eliminate repetitious comment but to make timely reference throughout this Report to matters on which the Committee expressed views.

In order to furnish a convenient reference for Members of the House, a summarized listing (Appendix 1) has been prepared of the 50 recommendations and observations made by the Committee in the six reports it has presented to the House during the period November 8, 1963 to December 7, 1964 which have not yet been implemented or otherwise dealt with by Executive action. With the exception of four from the Fourth Report 1963 and eight which had their origin in earlier reports, these recommendations and observations originated in reports presented to the House between July 28, 1964 and December 7, 1964. Consequently, no Executive action to implement or deal with them was possible during the fiscal year ended March 31, 1964.

Summary of Employees Authorized for the Public Service

5. In my Reports to the House for the last several years I have referred to the fact that the two largest items of expenditure continue to be public debt charges and civil salaries and wages (see Appendix 4). Together they totalled \$1,902 million and represented 28% of the total expenditure for the year under review. The largest of the public debt charges, namely interest, is the subject of a detailed appendix in the Public Accounts. With respect to civil salaries and wages, my Reports in prior years have contained a summarized listing, as an appendix, showing the numbers of employees authorized for the public service by departments, Crown corporations and other instrumentalities at the close of the year under review in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

The Public Accounts Committee expressed interest in this listing and in its Fourth Report 1963 requested that the listing continue to be prepared annually and, effective with this Report, include therein a more detailed breakdown of the various departmental and Crown corporation establishments by divisions and sub-divisions, together with the numbers of employees actually on strength at the close of the fiscal year, for the purpose of showing the size of each establishment's organization on a still more informative comparative basis.

A listing as at March 31, 1964 prepared on this basis appears in this Report as Appendix 3.

Scope of the Audit

6. Examinations of the departmental accounts for the year ended March 31, 1964 were made in conformity with section 67 of the Financial Administration Act which reads:

"The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property."

In my 1962 and 1963 Reports to the House of Commons I stated that it had not been possible to carry forward the comprehensive audit approach to the extent outlined to the House in my 1960 Report and to the Public Accounts Committee in 1960 and 1961 for the reason that I continued to be unable, under existing governmental recruitment procedures, to obtain the full staff approved for my Office by the Treasury Board. I pointed out the extent to which these recruitment difficulties were limiting the scope of the work of the Audit Office.

In my Report last year I outlined an arrangement I had entered into on November 22, 1963 with the Chairman of the Civil Service Commission whereby agreement was reached on the steps to be taken in the area of recruitment, selection and negotiation with candidates for positions in the Audit Office. This arrangement was implemented in January 1964 and is developing satisfactorily to the point where it should be possible to increase the scope of the work of the Audit Office before the completion of the now current fiscal year ending March 31, 1965 and to see the full effect of this improvement in the fiscal year to commence April 1, 1965. In this connection reference is made to the staff position given in paragraph 11.

It follows, therefore, that the limitations previously referred to in the scope of our work have continued during the fiscal year now under review. Subject to this, our

examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those listed in paragraph 133 whose accounts were subject to examination by other auditors.

The accounts relating to the receipts and disbursements of the Office of the Auditor General were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act. In this connection, the Public Accounts Committee, in its Eighth Report 1964 (see Appendix 1, item 50) has recommended that this section of the Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and Treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has addressed detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the past year. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Where matters dealt with in these reports were considered to be of interest to the House of Commons, references are made in the relevant sections of this Report.

Findings of Royal Commission on Government Organization

7. In my Report to the House last year I outlined my concept of the responsibilities of the Auditor General to Parliament with regard to the findings of this Royal Commission. In its Fourth Report 1964 (see Appendix 1, item 5) the Public Accounts Committee expressed the opinion that this concept of the responsibilities of the Auditor General is in accord with the intent and wishes of Parliament.

During the past year considerable research and planning has been in progress under the direction of the Secretary of the Treasury Board aimed at determining the extent to

which the recommendations of the Royal Commission can be implemented, which if carried out effectively could eliminate many of the outdated procedures, uneconomical operations and wasteful practices which are of concern.

The present state of these studies has led me to the conclusion that I should defer reporting to the House on the action taken on the findings in question until the Executive has made its final decisions on the basic or major recommendations, particularly in the area of financial management. Only then can a proper assessment be made as to whether or not the practices and procedures in question are to be effectively eliminated.

Form and Content of the Estimates

8. The importance of the Estimates of proposed spending being prepared and presented to the House of Commons in the simplest and clearest manner possible is a matter I have stressed at length in my Reports to the House since 1960. Each year I have furnished examples of improvements I believed should be made so as to provide more meaningful information.

In my Report last year I referred to a study of this subject being made at that time by the Public Accounts Committee. The Committee duly reported to the House at length on this study in its Third Report 1963 on December 19, 1963. It has since given further attention to this important matter and reported further to the House thereon in its Fourth Report 1964 on July 28, 1964. The recommendations and observations of the Committee at that time will be found in Appendix 1, item 6.

Form and Content of the Public Accounts

9. In my Report last year I recommended that further consideration should be given to summarizing or otherwise reducing the number of detailed listings presently included in the Public Accounts. I also pointed out that additional important information should be disclosed in the Public Accounts, and by way of examples suggested a more informative disclosure of accounts receivable due to the Crown and the inclusion of financial statements of departmental operating activities.

The Public Accounts Committee has requested its Sub-Committee on the Form and Content of the Public Accounts to consider these recommendations and suggestions and to report thereon to the main Committee. It is expected that the Committee will report to the House on this subject shortly.

Legal Adviser to the Auditor General

10. It has been the practice for many years for the Auditor General to obtain whatever legal opinions he required from the Deputy Minister of Justice. However, on May 4, 1964 the Deputy Minister of Justice informed me that while he was quite willing to advise me on matters pertaining to the operation of my Office which do not affect or relate to any departments of the government, he felt that his primary responsibility is to

advise the government and government departments, and that he should not advise me with respect to transactions entered into by any government department except at the request of that department or at the instance of the government. He felt that to advise me directly with regard to such matters would mean that he would inevitably become involved in a conflict of duty.

On July 14, 1964 the Deputy Minister of Justice appeared before the Public Accounts Committee and explained how he had come to the conclusion that because the Minister of Justice is by statute and constitutional practice the official legal adviser to the Crown and the departments of government, he should not assume the official role of legal adviser to the Auditor General, as he and his predecessors had done. In its Sixth Report 1964 presented to the House on October 20, 1964, the Public Accounts Committee expressed the opinion that it is fundamental that the Auditor General should have recourse to legal advice in the form of written opinions independent of the Crown and executive branch of government. The Committee suggested to the Auditor General that appropriate arrangements be made.

In view of the fact that there appeared to be no direct authority contained in the Financial Administration Act empowering the Auditor General to employ legal services, the Minister of Finance agreed with my suggestion that I be given the necessary authority by the Governor in Council to engage outside solicitors for the purpose of furnishing me with written legal opinions to the extent I require them, and Order in Council P.C. 1964-9/1747 was issued on November 13, 1964 to provide this authority with effect from November 1, 1964.

Following issuance of this authority, I have made appropriate arrangements with two firms of solicitors.

Office of the Auditor General

11. The circumstances surrounding the staff shortage referred to in my Reports to the House for 1962 and 1963 have been considered by the Public Accounts Committee during the past year. The Committee was disturbed to find that the actual working strength of the Office had only increased from 159 to 161 in the period November 30, 1963 to April 30, 1964 with the result that the Office remained 18 auditors short of the total approved establishment of 179 originally agreed to with the Minister of Finance and the Treasury Board in July 1960, or over four years ago.

A detailed assessment has been made of the staff it is estimated will be required effective with the 1965-66 fiscal year, having regard not only to the importance of enlarging the scope of the audit work, but also taking into account the increased size of the government organization since July 1960 in terms of additional departments, Crown corporations and agencies. This assessment placed staff establishment needs for 1965-66 at a figure of 220 employees which, in my opinion, is the minimum strength necessary to carry out a basic external audit program within the framework of the existing government organization. In order to enable recruitment to be proceeded with as soon as possible, the Treasury Board has approved this figure with effect from October 1, 1964.

The recommendations and observations made by the Public Accounts Committee on this subject are contained in its Fourth Report 1964 presented to the House on July 28, 1964. It will be noted by reference to this in Appendix 1, item 16, that the Committee recorded its belief that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and the Crown corporations generally. It also noted that amendments to the Financial Administration Act are to be introduced in due course and stated that it believes appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1964, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The statement shows a deficit of \$619 million for the year. By comparison, there were deficits of \$692 million in the preceding year and \$791 million in 1961-62.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1964, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,101 million, expenditures of \$6,872 million and unexpended balances of \$229 million.

14. Of the \$7,101 million of appropriations available for expenditure in the year, \$2,805 million was provided by continuing statutory authorities and \$4,269 million was granted by Appropriation Acts (Nos. 1, 2, 3, 4 and 5 of 1963 and Nos. 2, 3 and 4 of 1964) while \$27 million remained available from a continuing 1962-63 appropriation (Department of Labour Vote 32a).

Of the \$6,872 million of expenditure during the year, \$2,805 million (41%) was incurred under the continuing statutory authorities, with \$4,067 million (59%) being spent under the authority of the appropriations granted for the year.

Of the \$229 million of unexpended balances at the end of the year, \$174 million apsed in compliance with section 35 of the Financial Administration Act and \$55 million of Department of Labour Votes 32d and 34d remained available for expenditure in 1964-65 because of the special wording of the appropriations which read as follows:

"Vote 32d—Payments in accordance with terms and conditions approved by the Governor in Council to Provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1963-64 and 1964-65 fiscal years of amounts not exceeding fifty per cent of the cost of labour incurred in the period from November 1st, 1963 to such day in the fiscal year 1964-65 as may be determined by the Governor in

Council, and in the case of projects in designated development areas and as authorized by the Minister of Labour in areas of heavy winter unemployment 60 per cent of such cost; and to authorize payments in those fiscal years to Provinces in respect of previous Municipal Winter Works Incentive Programs in accordance with terms and conditions approved by the Governor in Council—\$35,000,000.”

“Vote 34d—Payments in accordance with terms and conditions approved by the Governor in Council under the Winter House Building Program during the fiscal years 1963-64 and 1964-65 of \$500 per dwelling unit substantially built during the period December 1st, 1963 to March 31st, 1964—\$20,000,000.”

15. The lapsed balances of \$174 million represented 4.1% of the \$4,269 million of appropriations under Appropriation Acts. This compares with lapsed balances at the close of the preceding year representing 2.3% of the amounts appropriated in that year under interim supply Appropriation Acts and by Governor General's special warrants and 6.1% of the appropriations in 1961-62. In the following cases, the lapsed balances represented more than 10% of the appropriations under Appropriation Acts:

	Appropriations	Lapsed balances	
		Amount	%
Atlantic Development Board	\$ 352,000	\$ 156,000	44
Emergency Measures Organization	10,129,000	3,187,000	31
Industry	1,363,000	679,000	50
Justice	38,099,000	4,880,000	13
Northern Affairs and National Resources	82,278,000	9,269,000	11
Privy Council	3,229,000	346,000	11
Secretary of State	8,656,000	1,105,000	13

16. The following table summarizes the expenditure, by departments, for the fiscal year 1963-64, in comparison with the corresponding amounts for the two previous years:

Department	1961-62	1962-63	1963-64
Agriculture	\$ 219,752,000	\$ 183,427,000	\$ 225,681,000
Canadian Broadcasting Corporation	78,161,000	80,816,000	87,576,000
Citizenship and Immigration	65,016,000	66,115,000	71,545,000
External Affairs	95,571,000	85,197,000	97,023,000
Finance	1,511,953,000	1,354,780,000	1,406,435,000
Labour	168,885,000	348,292,000	280,384,000
Mines and Technical Surveys	67,599,000	71,130,000	67,759,000
National Defence	1,626,104,000	1,571,044,000	1,683,471,000
National Health and Welfare	1,039,311,000	1,122,448,000	1,203,855,000
National Revenue	75,330,000	78,725,000	82,996,000
Northern Affairs and National Resources ..	78,369,000	86,377,000	77,334,000
Post Office	185,003,000	189,344,000	206,895,000
Public Works	183,015,000	162,730,000	167,001,000
Royal Canadian Mounted Police	60,497,000	65,424,000	66,899,000
Trade and Commerce	91,866,000	65,768,000	73,584,000
Transport	410,391,000	416,019,000	423,258,000
Veterans Affairs	333,223,000	335,602,000	333,740,000
Other departments	230,600,000	287,104,000	316,965,000
	<u>\$ 6,520,646,000</u>	<u>\$ 6,570,342,000</u>	<u>\$ 6,872,401,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variation between the departmental expenditure totals listed above for 1962-63 and 1963-64.

17. *Agriculture.* The increase of \$42 million or 23% in expenditure by this Department in 1963-64 in comparison with the preceding year was more than accounted for by the increase of \$50 million—from \$72 million to \$122 million—in the amount appropriated for the net operating loss of the Agricultural Stabilization Board, which was mainly due to a revaluation of the inventories of commodities held at March 31, 1964 (see paragraph 163 of this Report). Other significant variations in the year were decreases of \$6 million in the deficit of the Prairie Farm Emergency Fund and \$4 million in outlays on rehabilitation and reclamation projects.

18. *Canadian Broadcasting Corporation.* The appropriations providing for the operating and capital grants to this Corporation were charged \$88 million during the year, an increase of \$7 million or 8% over 1962-63. The increase was mainly due to the higher net operating requirements of the radio and television services which amounted to \$78 million in 1963-64, an increase of approximately \$6 million over the preceding year.

19. *Citizenship and Immigration.* The increase of \$5 million or 8% in expenditure by this Department in 1963-64 compared with the preceding year was mainly due to increased expenditure by the Indian Affairs Branch on welfare, \$1.1 million (10%); economic development, \$1 million (42%); and education \$2 million (10%).

20. *External Affairs.* Expenditure by this Department increased by \$12 million or 14% in the year under review due mainly to an increase of \$5 million (34%) in the cost of memberships in, and contributions to, international organizations and an increase of \$4 million (85%) in assistance to other countries.

21. *Finance.* The 1963-64 expenditure of \$1,406 million by this Department was \$52 million or 4% greater than the total spent in the preceding year. The most significant variations were an increase of \$73 million (8%) in interest on the public debt and a decrease of \$23 million due to the termination in the preceding year of payments under the Federal-Provincial Tax-Sharing Arrangements Act, 1956, c. 29.

22. *Labour.* The decrease of \$68 million or 19% in expenditure by this Department in 1963-64 in comparison with the preceding year was more than accounted for by a decrease of \$71 million (34%) in payments to the provinces to provide financial assistance for vocational and technical schools and training programs.

23. *Mines and Technical Surveys.* Expenditure by this Department decreased by \$3.4 million or 5% during the year under review due to a decrease of \$4 million (37%) in the expenditures of the Marine Sciences Branch.

24. *National Defence.* The expenditure of \$1,683 million in 1963-64 by this Department was \$112 million or 7% more than in the preceding year. The increase was more than accounted for by a \$76.5 million supplementary contribution by the Government to the Canadian Forces Superannuation Account to provide for additional liabilities resulting from an increase in the rates of pay of Armed Forces personnel, \$29 million (11%) higher expenditure for the Royal Canadian Navy, a \$5 million (12%) increase in outlays of the Defence Research Board, and a \$4 million (15%) increase in Mutual Aid to NATO countries.

25. *National Health and Welfare.* The increase of \$81 million or 7% in expenditure by this Department in 1963-64 compared with the preceding year was largely accounted for by increases of \$56 million (17%) in the Government's contributions under the Hospital Insurance and Diagnostic Services Act, \$11 million (11%) in unemployment assistance, and \$7 million (1.3%) in family allowance payments.

26. *National Revenue.* Of the \$4.3 million or 5% increase in expenditure recorded for this Department in 1963-64, \$1.7 million (4%) was in the Customs and Excise Division and \$2.5 million (7%) in the Taxation Division. The increases were due to generally higher administrative costs in both Divisions.

27. *Northern Affairs and National Resources.* Expenditure by this Department was down \$9 million or 10% in comparison with 1962-63. The most significant change was in expenditure of the Northern Administration Branch where there was no outlay comparable to the \$7 million write-off in the preceding year of loans made to the Northern Canada Power Commission for the construction and installation of public utilities at Inuvik, N.W.T. Expenditure by the National Parks Branch on the construction or acquisition of buildings, works, land and equipment decreased by \$4 million (24%). Contributions to provinces to assist in the development of roads leading to resources were \$2.2 million (22%) less than in the preceding year whereas contributions to provinces to assist in the conservation and control of water resources increased to \$7.6 million from \$3.1 million.

28. *Post Office.* The expenditure of this Department increased by almost \$18 million or 9% in the year under review, due to payment of a retroactive salary increase amounting to \$5 million and to general increases in the cost of operations during the year.

29. *Public Works.* Although the expenditure of \$167 million by this Department in 1963-64 represented an increase of only \$4 million or 2.6% over the preceding year, there were two substantial changes in individual expenditure classifications. There was

an increase of \$8 million (25%) in outlays connected with the construction of the Trans-Canada Highway and a decrease of \$7 million (24%) in expenditure on harbour and river works.

30. *Trade and Commerce.* Expenditure by this Department increased by \$8 million or 12% in comparison with 1962-63 due largely to an increase of \$4 million (12%) in payments to the Canadian Wheat Board with respect to the carrying costs of temporary wheat reserves.

31. *Transport.* Although the expenditure of \$423 million by this Department in 1963-64 represented an increase of only \$7 million or 1.7% over the preceding year, there were significant changes in several individual expenditure classifications. There were increases of \$18 million—from \$22 million to \$40 million—in capital subsidies for the construction of commercial and fishing vessels; \$18 million—from \$50 million to \$68 million—in interim payments to railways to maintain freight rates at reduced levels; \$9 million—from \$12 million to \$21 million—in railway construction subsidies; \$6 million (11%) in marine services; together with payments to the Canadian National Railways of \$4 million in respect of the termination of the collection of tolls on the Victoria Bridge, Montreal, and \$3 million of interest on the cost of constructing the rail diversion on the Bridge for which there were no comparable expenditures in the preceding year. Largely offsetting these increases were reductions in the deficits of the Canadian National Railways and Trans-Canada Air Lines of \$6 million (12%) and \$4 million (100%) respectively, and decreases of \$5 million (94%) in payments to the National Harbours Board, \$16 million (12%) in the expenditure by air services mainly with respect to construction of national airports, and \$21 million in outlays under the Freight Rates Reduction Act, there being no disbursements under the provisions of this Act in the year under review.

32. *Veterans Affairs.* Expenditure by this Department of \$334 million was \$2 million or 0.6% less than in the preceding year, there being no significant changes in any items of expenditure classification.

33. *Other departments.* The increase of \$30 million or 10% in the amount shown for "Other departments" in the table in paragraph 16 was due to a number of significant changes in the expenditures of the smaller departments. Expenditure by the Department of Defence Production was \$11 million (34%) higher than in the preceding year due largely to an increase, from \$8 million to \$19 million, in outlays to sustain technological capability in Canadian industry. Expenditure by the Department of Forestry was up \$10 million (31%) mainly in respect of freight assistance and storage costs on western feed grains and payments under the Agricultural Rehabilitation and Development Act. There were also increases in expenditure by the National Research Council

of \$7 million (16%), by Central Mortgage and Housing Corporation, \$5 million (56%), by the House of Commons, \$4 million (69%), by the Department of Justice, \$4 million (11%) and by the Department of Secretary of State, \$3 million (58%). The most significant decrease was one of \$17 million (27%) in Atomic Energy expenditure due to there being no charge in the year under review comparable to the write-off in the preceding year of the \$25 million undepreciated capital cost of the NRU reactor.

Revenue

34. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1964, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$5,534 million of the total revenue of \$6,253 million.

35. The following table summarizes the revenue, by principal sources, for the past three years:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Tax revenues:			
Personal income tax	\$ 1,792,656,000	\$ 1,744,626,000	\$ 1,865,074,000
Corporation income tax	1,202,054,000	1,182,837,000	1,258,957,000
Income tax on dividends, interest, etc., going abroad	112,306,000	129,137,000	124,500,000
Sales tax	759,678,000	805,971,000	946,055,000
Other excise taxes	262,526,000	260,378,000	273,415,000
Customs duties	534,516,000	644,992,000	581,442,000
Excise duties	362,799,000	381,866,000	393,326,000
Estate tax	84,579,000	87,143,000	90,671,000
Other tax revenues	51,000	27,000	92,000
	<u>5,111,165,000</u>	<u>5,236,977,000</u>	<u>5,533,532,000</u>
Non-tax revenues:			
Return on investments	307,502,000	311,861,000	366,413,000
Net postal revenue	183,679,000	192,772,000	200,717,000
Other non-tax revenues	127,278,000	137,099,000	152,542,000
	<u>618,459,000</u>	<u>641,732,000</u>	<u>719,672,000</u>
	<u>\$ 5,729,624,000</u>	<u>\$ 5,878,709,000</u>	<u>\$ 6,253,204,000</u>

36. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c. 200. These collections, which amounted to \$750,110,000 in the year, were credited to the Old Age Security Fund. A

summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 102.

37. *Excise taxes.* The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1964, with comparable amounts for the two previous years:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Cigarettes	\$ 185,176,000	\$ 195,313,000	\$ 200,211,000
Manufactured tobacco	19,599,000	19,123,000	23,460,000
Phonographs, radios and tubes	8,853,000	9,875,000	11,432,000
Toilet articles and preparations	9,397,000	10,142,000	11,126,000
Television sets and tubes	9,570,000	10,059,000	10,578,000
Jewellery, clocks, watches, chinaware, etc.	5,577,000	5,793,000	6,353,000
Wines	3,350,000	3,727,000	3,814,000
Cigars	2,775,000	3,372,000	3,267,000
Sundry excise taxes	3,943,000	3,350,000	3,505,000
Automobiles	25,270,000	—	—
Refunds and drawbacks	—10,984,000	—376,000	—331,000
	<u>\$ 262,526,000</u>	<u>\$ 260,378,000</u>	<u>\$ 273,415,000</u>

The excise tax on automobile sales was repealed effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, resulted in the large amount of refunds and drawbacks in 1961-62.

38. *Customs duties.* The decrease of \$64 million in customs duties in 1963-64 in comparison with the preceding year was due to the removal by April 1, 1963 of the special rates imposed by the Surcharge on Imports Order of June 24, 1962.

39. *Excise duties.* A listing of the excise duties collected during the year ended March 31, 1964, in comparison with the corresponding amounts for the two previous years, is given in the following table:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Cigarettes	\$ 151,034,000	\$ 157,049,000	\$ 157,054,000
Spirits	114,088,000	122,099,000	129,406,000
Beer	92,716,000	98,147,000	102,907,000
Other excise duties	9,521,000	9,463,000	8,623,000
Refunds and drawbacks	—4,560,000	—4,892,000	—4,664,000
	<u>\$ 362,799,000</u>	<u>\$ 381,866,000</u>	<u>\$ 393,326,000</u>

40. *Return on investments.* The following is a listing of the revenue from the various investments in 1963-64, along with the comparable figures for the two previous fiscal years:

	1961-62	1962-63	1963-64
Bank of Canada	\$ 107,693,000	\$ 96,680,000	\$ 116,386,000
Central Mortgage and Housing Corporation	71,754,000	79,925,000	85,525,000
Exchange Fund Account	32,606,000	35,227,000	62,594,000
Loans to National Governments	30,825,000	29,272,000	26,301,000
Deposits with chartered banks	6,394,000	14,395,000	13,702,000
Canadian National Railways	1,452,000	3,824,000	13,018,000
Farm Credit Corporation	5,962,000	8,482,000	10,869,000
Veterans' Land Act loans	5,895,000	6,549,000	7,373,000
Securities Investment Account	15,068,000	12,351,000	4,059,000
Polymer Corporation Limited	3,000,000	3,000,000	3,500,000
National Harbours Board	3,943,000	3,631,000	3,475,000
Canadian Overseas Telecommunication Corpora- tion	1,516,000	1,971,000	2,586,000
The St. Lawrence Seaway Authority	—	—	2,568,000
National Capital Commission	1,505,000	1,776,000	2,319,000
Eldorado Mining and Refining Limited	5,000,000	3,000,000	2,000,000
Northern Canada Power Commission	871,000	1,696,000	1,648,000
Northern Ontario Pipe Line Crown Corporation	4,310,000	4,087,000	1,583,000
Other loans and investments	9,708,000	5,995,000	6,907,000
	<u>\$ 307,502,000</u>	<u>\$ 311,861,000</u>	<u>\$ 366,413,000</u>

41. The amounts shown for revenue from the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c. 13.

The Central Mortgage and Housing Corporation amount for 1963-64 comprised \$80,297,000 (\$74,337,000 in 1962-63) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, and \$5,228,000 (\$5,588,000 in 1962-63) representing the profit for the Corporation's financial year ended December 31, 1963 which was transferred to the Receiver General as required by section 30 of the Act.

The substantial increase of \$27 million in earnings of the Exchange Fund Account for the calendar year 1963 resulted from increases in investment holdings and investment portfolio changes.

The reduction of approximately \$3 million in interest on loans to National Governments is due to principal repayments of \$129 million during the previous year.

The increase of \$9,194,000 in interest from the Canadian National Railways is due to the payment of a full year's interest on an amount of \$250 million advanced to the Canadian National Railways in February and March 1963 under authority of the Refunding Act of 1955.

The decrease of \$8,292,000 in revenue from the Securities Investment Account is due to there having been no acquisition of securities of Canada for the subsidiary Purchase Fund during the year.

The amount of \$2,568,000 represents interest on loans made to The St. Lawrence Seaway Authority of which \$68,000 is interest on temporary loans and \$2,500,000 is in respect of interest for the year 1961.

The revenue from the investment in the Northern Ontario Pipe Line Crown Corporation, representing interest on loans made to the Corporation by the Government of Canada, decreased by \$2,504,000 by reason of the fact that Trans-Canada Pipe Lines Limited exercised its option to purchase the Northern Ontario section on May 29, 1963, whereupon the Corporation discharged its liability for loans then outstanding.

42. *Net postal revenue.* The following table shows the gross postal revenue, less disbursements therefrom, and the resulting net postal revenue for the past three fiscal years:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Gross postal revenue	\$ 213,518,000	\$ 222,300,000	\$ 235,808,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	25,171,000	25,239,000	29,936,000
Other disbursements	4,668,000	4,289,000	5,155,000
	<u>29,839,000</u>	<u>29,528,000</u>	<u>35,091,000</u>
Net postal revenue	<u>\$ 183,679,000</u>	<u>\$ 192,772,000</u>	<u>\$ 200,717,000</u>

The amounts shown for "Other disbursements" mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

In paragraph 168 of this Report a summary is given of the Post Office transactions for the year under review, in comparison with the corresponding figures for the preceding fiscal year, together with comments on the recorded excess of expenditure over revenue.

43. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 35 for "Other non-tax revenues" for 1963-64 with comparable figures for the two previous fiscal years is given in the following table:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Services and service fees	\$ 42,453,000	\$ 46,186,000	\$ 51,321,000
Proceeds from sales	25,902,000	26,531,000	28,445,000
Privileges, licences and permits	23,271,000	25,008,000	27,172,000
Refunds of previous years' expenditure	18,163,000	22,392,000	26,839,000
Bullion and coinage	7,965,000	9,404,000	9,717,000
Miscellaneous	9,524,000	7,578,000	9,048,000
	<u>\$ 127,278,000</u>	<u>\$ 137,099,000</u>	<u>\$ 152,542,000</u>

Comments on Expenditure and Revenue Transactions

44. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review are brought to the attention of the House in this Report.

45. *Governor General's special warrants.* The dissolution of Parliament on February 6, 1963 before full supply for the year 1962-63 had been granted necessitated recourse to Governor General's special warrants in order to provide the necessary funds for the carrying on of government services during the months of February and March 1963. These special warrants were reported and commented upon in paragraph 45 of my 1963 Report.

As the new Parliament did not assemble until May 16, 1963, Governor General's special warrants were required during the months of April and May as follows:

- (a) one for \$260,979,774 on April 1, 1963 which provided the funds which it was estimated would be required during the month of April 1963; and
- (b) one for \$354,416,247 on May 2, 1963 which provided the funds which it was estimated would be required during the month of May 1963 or until Parliament was able to appropriate interim supply.

These two warrants were based on, and were approximately one-sixth of, the Main Estimates for 1963-64 and the amounts were subsequently included in the amounts authorized by Appropriation Act No. 1, 1963, c. 1.

The special warrants issued in the fiscal year ended March 31, 1963 had included a number of items which did not meet the test of being "urgently required for the public good", as required by section 28 of the Financial Administration Act. After considering this matter in its examination of the 1963 Report, the Public Accounts Committee in its Fourth Report 1964 recommended that a study be made of Governor General's special warrants (see Appendix 1, item 8).

The two warrants issued during the year under review each included three items which did not meet the test of being "urgently required for the public good". These are:

- (1) An item "to supplement other votes, subject to the approval of the Treasury Board, for the payment of salaries, wages and other payroll charges". Obviously the payment of the amounts was not urgently required when the special warrants were issued and the Governor in Council in effect delegated to the Treasury Board his authority under section 28 of the Financial Administration Act although there is no provision for such delegation.

- (2) An item "miscellaneous minor or unforeseen expenses, subject to the approval of the Treasury Board, and awards under the Public Servants Inventions Act". As in (1) above, these items were not urgently required when the special warrants were issued and represented an unauthorized delegation of authority to the Treasury Board.
- (3) Amounts totalling \$123,900 to cover the administrative expenses of the National Gallery of Canada without taking into consideration approximately \$53,000 available for this purpose in the Gallery's special operating account.

We have been advised by the Secretary of the Treasury Board that, in accordance with the recommendation of the Public Accounts Committee, a study is currently being made of the financing problems which result when Parliament has been unable to make provision for the carrying on of governmental services between sessions.

46. *Prairie Farm Emergency Fund.* The deficit in the operations of this Fund during the year was \$1,073,000, compared with deficits of \$7,295,000 and \$47,733,000 in the two preceding fiscal years.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act, R.S., c. 213. Under the Act, a levy of 1% is imposed on the purchase price of grain purchased by licensees under the Canada Grain Act, and the moneys collected, which totalled \$9,141,000 during the past year, were credited to the account. Awards are made to eligible farmers in areas affected by crop failure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During the year awards amounted to \$10,214,000 and the \$1,073,000 by which these exceeded the revenue from the 1% levy was charged to Department of Agriculture Vote 175e.

On December 13, 1963 the parliamentary Committee on Privileges and Elections recommended the appointment of a Commission to inquire into payments made under the Prairie Farm Assistance Act relative to the 1962 crop year. Accordingly, a Commission of inquiry was established by Order in Council P.C. 1963-1896 of December 21, 1963 and reported its findings on June 10, 1964.

The Public Accounts Committee at its meeting on June 4, 1964 was informed of the limited audit performed by the Audit Office of the expenditures of the Fund in recent years and was assured that, with an improvement in the staff situation, an annual examination would be undertaken in future. Accordingly, a test examination of the accounts was made for the year ended March 31, 1964. In our opinion the following matters which have financial consequences arising from the application of the provisions of the Act require serious consideration.

A Board of Review is established by the Act to examine all information and data regarding the average yield of wheat in any township and to determine the eligibility of any area for an award. The Board is also required to decide questions concerning the eligibility of any farmer or class of farmers for awards under the Act. No minutes are maintained by the Board recording its policies and reasons for certain of its decisions with

respect to applications for awards and other relevant matters. As a result, difficulty was experienced in the verification of the eligibility of townships and farmers for awards under the Act.

Inspections are made of areas suffering a crop failure and it is the duty of the inspectors to obtain information from farmers concerned and to determine the actual yield on each parcel of land. The information is recorded on a "Cultivated Acreage Report", which is required to be signed by the farmer and by the inspector. These reports form the basis of the awards and, if the inspectors fail to carry out their duties properly or if there is collusion, it would be difficult, if not impossible, for irregular payments to be detected. The Audit Office is therefore in agreement with the recommendations of the Commission of Inquiry that greater care be taken in investigating and checking the accuracy of reports, that consideration be given to placing the permanent staff of the Prairie Farm Assistance Administration under the Civil Service of Canada, and that spot checks be made throughout municipalities by investigators from P.F.A.A. headquarters.

Our examination revealed that one township had been eligible for an award in 23 out of the 25 crop years between 1939, when the program of crop failure assistance was inaugurated, and 1963. Thirty surrounding townships were eligible on an average of 20 out of the 25 crop years. Therefore we also concur in the recommendation of the Commission of Inquiry that consideration be given to the elimination from eligibility for payment of awards of marginal land on which crop failures continuously occur from year to year and which apparently only remain in production by reason of the benefits available under the P.F.A.A. program.

Section 6(a) of the Act provides that a section of land or blocks of sections, having a side along the boundary of an eligible township, may be eligible for assistance as long as the average yield of wheat within such area is eight bushels or less per acre. For 1962 a policy was introduced whereby a section or a block of sections need touch eligible townships only corner-to-corner. While it is difficult to estimate the total amount paid in respect of areas receiving awards due to this policy in 1962, a test involving only a small number of townships revealed payments of approximately \$10,000. The policy was not continued in 1963.

In the 1963-64 crop year there were 288 townships eligible for assistance in the Alberta Division on the basis of the predominant crop being a coarse grain. In field inspections, great emphasis is placed on measurement of wheat storage facilities in order to verify the quantity of wheat on hand and the current year's wheat production. We were, however, informed that, as a general rule, the stocks of coarse grain on hand were not measured nor were the sales of coarse grain to date of inspection established by reference to Wheat Board permit books. One of the reasons advanced for this course of action was that in many cases considerable quantities of coarse grain had been used as feed so that it was not possible for an inspector to verify the yield with any degree of accuracy.

Extensive areas of southern Alberta are irrigated and many farmers grow wheat on both irrigated and non-irrigated portions of their farms. In accordance with the Act, the irrigated areas are excluded for purposes of determination of average yields if the yield

of the irrigated portions exceeds 12 bushels per acre. In reviewing the Cultivated Acreage Reports, it was observed that often little or no yield was reported on large acreages of non-irrigated land so that the relative township or townships became eligible for awards. It is not possible to verify information supplied by farmers with respect to the yield of wheat on the non-irrigated portion of those farms where crops from both irrigated and non-irrigated areas are stored in the same bins. A similar situation prevails where farmers operate farms situated in two or more townships.

Section 7 of the Act requires every award under the Act to be paid in the month of December. In northern areas of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia, harvesting is seldom completed before mid-October and sometimes November. As a consequence, it is difficult for inspectors to complete Cultivated Acreage Reports within the time available. Since the information compiled from these reports must be examined by the Board of Review before eligibility is determined and cheques processed, only a portion of the awards can be paid during December. It was observed that most of the awards are usually paid during the months of January and February and the balance in the following three months. It being impossible to comply with this section of the Act, consideration should be given to its repeal.

47. *Misapplication of public funds at Indian Agency.* In 1963 the Department of Citizenship and Immigration discovered sizeable misapplications of public funds at one of the Indian Agencies. Investigations established that during the period June 1, 1960 to December 31, 1962 an estimated \$70,000 was diverted by the superintendent of the Agency from welfare assistance to Indians in the form of cash relief, fuel wood and a community employment program to projects and activities not authorized by the Department. In addition, approved limits of expenditure on various authorized activities were deliberately exceeded.

The superintendent did not always agree with the Department's decisions relating to expenditures for the benefit of Indians and he disregarded departmental regulations and directions and financed unauthorized activities by diverting funds from authorized programs. He and his assistant admitted they had forged endorsements on cheques in order to use them, but they maintained that all expenditures were for the benefit of the Indians and denied that they had converted any funds to their personal use. In the absence of proof that funds were used by the superintendent or his assistant personally, the Department was unable to establish that any amount was owing to the Crown.

The superintendent was suspended from duty on May 15, 1963 and the assistant superintendent on September 1, 1963. It is understood that legal action is to be taken under section 92 (d) of the Financial Administration Act and under section 311 of the Criminal Code of Canada.

48. *Payment for loss of salary pending appointment to a position in the civil service.* It is provided in section 71 (3) of the Civil Service Act that a person who, for at least three years, has held the position of Executive Assistant to a Minister or the position of Private Secretary to a Minister, is entitled to be appointed to a position in the civil

service for which the person is qualified, not being lower than the position of head clerk. The Act is silent as to the person's entitlement if no position is available.

A case was noted where the former private secretary of an ex-Minister became available for such a position on July 1, 1963 but the Civil Service Commission was unable to provide employment until February 20, 1964. The Civil Service Commission requested Treasury Board to recommend an ex gratia payment in the amount of one-half of the salary the former private secretary would have received had she been employed from July 1st until the resumption of her employment in the public service at the maximum rate of head clerk. Payment on an ex gratia basis was authorized by Order in Council P.C. 1963-8/1730 of November 28, 1963 and the expenditure of \$1,979 was charged to Civil Service Commission Vote 1, 1963-64.

In order to provide for the benefits pursuant to continuity of employment, the Civil Service Commission drafted a regulation under section 68 of the Civil Service Act covering the period July 1, 1963 to February 19, 1964 during which the former secretary was out of employment. This regulation was approved by Order in Council P.C. 1964-6/490 of April 10, 1964.

49. *Defalcation by locally-engaged employee in Canberra, Australia.* A defalcation by a locally-engaged accountant employed by the Canadian Mission in Canberra, Australia, first came to light in January 1963 when a supplier requested from the High Commissioner payment of a long outstanding account for gasoline. Investigation by officers of the Mission and by a local auditor engaged for the purpose, together with a confession by the employee involved, disclosed not only misappropriation of payments made to the employee for gasoline purchased by Canadian personnel, but also other defalcations involving many aspects of the accounting activities, both as regards revenues and expenditures.

The Chief Treasury Officer in the Department of External Affairs was dispatched to Canberra to complete the investigation and he reported a total defalcation of \$13,589 over a period of four years. As well as misappropriating payments for gasoline amounting to \$1,533, the employee had stolen \$9,636 received from prospective immigrants to cover costs of air mailing documents to Canada for examination, \$888 representing income tax deducted from salaries of local employees, and \$1,532 by means of various other frauds. Of the total of \$13,589 reported stolen, \$7,053 was recovered from the employee and \$6,536 is to be charged to the Public Officers Guarantee Account. The direct cost of investigating this defalcation was approximately \$6,000 to which might be added indirect costs of \$6,000.

Our review of the various reports received by the Department dealing with the circumstances of this defalcation shows that it went undetected so long largely because of inadequate supervision of the accountant's work in the Mission coupled with a lack of attention by Mission officers to queries from Ottawa on its accounts and to routine financial matters. Weaknesses in the departmental system of internal financial control and neglect in Ottawa to follow up observations raised by Treasury officers were also contributing factors.

The Department dispatches inspection teams periodically to embassies and missions. The last visit to this Mission was in October 1961 when it was reported that there appeared to be no major problems regarding financial administration. At that time the Mission accountant advised the inspection team that departmental and Treasury observations on his monthly accounts were few whereas in fact they were numerous and serious.

The scope of work of the Audit Office in the past has not embraced surprise audits of embassies and missions abroad for the reason that paid cheques, receipted vouchers and related supporting material are dispatched to the Department in Ottawa for checking and audit. We are discussing this procedure with the officials concerned and are reviewing the Department's system of internal financial control.

50. Government contributions not made to the Public Service Superannuation Account. As was the case in the three previous years, no special credits were made to the Public Service Superannuation Account in 1963-64 in respect of salary increases granted to civil service classes as the result of cyclical salary reviews, although subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c. 47, reads:

"There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase."

We were informed that the reason no such special credits were made to the Account as required by section 32 was that the salary increases granted in 1963-64 were not regarded as increases "of general application".

On March 6, 1964 the Minister of Finance outlined in the House of Commons a general policy for dealing with deficiencies in the various superannuation accounts. The Minister stated that the deficiencies existing prior to the commencement of the 1963-64 fiscal year would be written off to net debt, deficiencies created by general pay increases made in that year which the law requires to be charged to that year's expenditure would be so charged, and that deficiencies arising from pay increases during the year which were not general in scope would be charged to expenditures over a five-year period commencing in 1964-65. The Minister further stated that in future the deficiencies arising from pay increases, whether of a general or cyclical character or otherwise, would be charged against expenditures over a five-year period commencing in the year in which the increases are authorized.

When announcing the implementation of this policy on November 12, 1964 the Minister stated that authority would be sought from Parliament during the year to write off to net debt a deficiency in the Public Service Superannuation Account as at December 31, 1962 of \$110,536,000 plus interest and to charge the deficiencies arising

from pay increases authorized during the fiscal years 1963-64 and 1964-65 against expenditures over a five-year period commencing with 1964-65 (see paragraph 123 of this Report).

It has been calculated by the Department of Insurance that the deficiency in the Account as at December 31, 1962 plus interest to December 31, 1964 will amount to \$119,556,000 and that the additional deficiency arising from pay increases authorized in 1963-64, with interest to December 31, 1964, will amount to \$30,506,000.

51. *Errors in Public Service Superannuation Account pension and contribution calculations.* Comments under this heading have appeared in our Reports to the House for the past three fiscal years. The Public Accounts Committee in its Fourth Report 1963 noted with concern the high incidence of error in the superannuation accounts, and in its Sixth Report 1964 (see Appendix 1, item 33) expressed concern that this matter is taking so long to be corrected and requested the Auditor General to keep the Committee fully informed.

The responsibility for the operation of the Superannuation Branch was transferred in December 1963 from the general direction of the Secretary of the Treasury Board to the Comptroller of the Treasury, the Director of Pensions and Social Insurance of the Department of Finance retaining responsibility for dealing with cases requiring legal opinions and decisions regarding superannuation policy.

On assuming this responsibility, the Comptroller of the Treasury appointed a task force to study the organizational structure of the Branch and review its existing system and procedures in depth to determine what steps should be taken toward eliminating the errors occurring in the pension and contribution calculations. He advises that following receipt of the task force's report, a series of staff meetings were held to discuss its recommendations and that a number of significant measures designed to remedy this situation have been or are in the course of being introduced.

There has been some reduction in the number of errors we have had to bring to the attention of the officers of the Branch during the past year. However, in our opinion, the incidence of error continues to be higher than it should be in an administrative operation of this type.

A reference was made in paragraph 53 of last year's Report to the lack of verification of the correctness of contributions remitted to the Central Pay Division in respect of employees of Crown corporations. We have been advised that action is being taken to correct this situation.

52. *Deletion of debt without collection effort.* In August 1963 it was discovered that pension payments at a rate in excess of the limit fixed by the Public Service Pension Adjustment Act were being made to a pensioner. The resulting debt was deleted from the accounts by Executive order made pursuant to section 23 (1) of the Financial Administration Act.

Although the amount involved was small, the action was taken without the pensioner being informed of the overpayment or any effort being made to recover the debt. In the

interest of effective internal financial control, we believe that in no case should a debt due to the Crown be recommended for deletion unless every effort has been made to collect.

53. *Subsidization of Fishermen's Indemnity Plan.* During the year under review \$197,000 was appropriated to meet the 1963-64 deficits arising in connection with the operations of the Fishermen's Indemnity Plan, of which \$29,000 was required by the Lobster Trap Indemnity Account and \$168,000 by the Fishing Vessel Indemnity Account.

The Plan, which was introduced in 1953-54 and is intended to be self-supporting except for its administrative costs, provides insurance to assist small-scale fishermen in meeting losses incurred in respect of lobster traps and fishing vessels. In the case of the lobster traps, premiums are assessed on the basis of the value category into which the established average appraised value per trap falls, or at a lower prescribed premium rate at the option of the fisherman. Indemnity is limited to those traps which cannot be recovered, or have been damaged beyond repair, in excess of percentages of the total number of traps on which a premium has been paid—depending on the fishing districts involved—with the indemnity per trap being substantially less than the established appraised value per trap used for the determination of premium. For a fishing vessel, the premium basis is one per cent of the appraised value of the vessel, to a maximum of \$12,500, and indemnity is regulated by formulae covering total or partial loss and whether the vessel is operated on the eastern or western seaboard.

The legislation provides that the Accounts may be charged with indemnity payments and credited with premium income with the debit balance not to exceed \$150,000 at any time in accordance with regulations of the Governor in Council. Administrative expenses amounting to \$2,251,000 since the inception of the Plan to March 31, 1964 have been met through parliamentary appropriations and are therefore not taken into account in determining premium rates. Notwithstanding this, both of the Accounts within the Plan have recorded net deficits from their introduction to March 31, 1964. The Lobster Trap Indemnity Account has consistently been in a deficit position, the accumulated deficits having aggregated \$662,000. The Fishing Vessel Indemnity Account, although producing surpluses during four fiscal years, most recently in 1960-61, showed a net deficit of \$300,000 to the close of the year under review.

We have discussed the circumstances surrounding the financial results of the operation of the Plan with officials of the Department of Fisheries. In the case of the Lobster Trap Indemnity Account, they have explained that deficits of \$94,000 and \$153,000 in 1961-62 and 1962-63 respectively were due to an increasing concentration of policyholders operating in a winter lobster fishing area of Nova Scotia where heavy seas are almost a daily occurrence, and the fact that insured fishermen tended to extend their operations into the most vulnerable locations, with the result that it had been difficult for the Department to provide adequate surveillance. Steps have been taken to meet the situation through the adoption of improved administrative procedures and by an amendment to the regulations early in 1964, in line with loss experience, to

increase the amount deducted for "normal" loss in the calculation of indemnity. With respect to the Fishing Vessel Indemnity Account, abnormal weather conditions in most of the fishing areas have been reflected by heavy deficits over the past two years as compared with a satisfactory experience in prior years. The Department is presently engaged in a detailed study to ascertain the extent to which factors other than weather may have been operative during this period so as to determine what further changes in the regulations are practical or to what extent the premium rates should be revised.

54. *Winter house building program.* Department of Labour Vote 34d in the amount of \$20 million authorized payments, in accordance with terms and conditions approved by the Governor in Council under the winter house building program, of \$500 per dwelling unit substantially built during the period December 1, 1963 to March 31, 1964.

To establish that a dwelling unit was one on which the incentive could be paid and which was substantially built within the period specified in the legislation required that it be subject to inspection, first, at or near its initial stage of construction on or after December 1, 1963, and finally prior to or about March 31, 1964. These inspections were made on behalf of the Department by the Central Mortgage and Housing Corporation.

On March 26, 1964 the Minister announced in the House of Commons that because the success of the program had led to shortages in labour and materials as the substantial volume of housing construction reached the final stages, the incentive payment would be denied to some builders whose dwellings would otherwise have been substantially completed by March 31, and therefore the date of final inspection under this program was being extended from March 31 to April 15, 1964.

The effect of this would seem to be that some dwelling units that were not substantially built on or before March 31, 1964 would be regarded as qualifying for an incentive bonus and therefore the extension of the time for final inspection required the approval of Parliament.

55. *Questionable charge to Vote 70 of the Department of Mines and Technical Surveys.* During the first three months of 1964 a hydrographic vessel operated by the Department of Mines and Technical Surveys assisted the Royal Navy in charting safer shipping channels in the Caribbean Sea. The costs of Canada's operation, which were estimated to be \$75,000 in excess of what overhead costs would have been if the vessel had remained in her normal winter lay-up condition, were charged to the appropriation (Vote 70) provided for the administration, operation and maintenance of the Department's Marine Sciences Branch.

It is understood that Canada's participation in this project provided valuable staff training for departmental personnel and also an opportunity to return service in kind to the Royal Navy which originally charted Canadian coastal waters.

In our view, however, it is questionable whether such an undertaking falls within the ambit of the Department's responsibilities as laid down by the Department of Mines and Technical Surveys Act, R.S., c. 73.

56. *National Defence administrative regulations and practices.* The Public Accounts Committee in its Sixth Report 1964 expressed its pleasure that appropriate changes had been or were in the process of being made in each of the Armed Forces administrative regulations which had been commented on in our 1963 Report. The Committee requested the Auditor General to inform the House of Commons of any case where the changes appear to be inadequate or where abuse and waste of public funds develop (see Appendix 1, item 22). The following paragraphs give brief outlines of the matters which remained uncorrected during the year under review and of several similar matters coming to our attention during the year.

1. **RELEASE FROM SERVICE THROUGH PURCHASE.**—In the 1963 Report (paragraph 64 (2)) it was noted that while the Air Force and the Navy required the payment of money for “other ranks” to obtain release on request, the Army had not done so since 1950. While the Department expected that the practice would be reinstituted with respect to the Army, orders giving effect to this have not yet been promulgated.
2. **REMOVAL EXPENSES—MOBILE HOMES.**—In the 1963 Report (paragraph 64 (3)) it was observed that although new instructions were being issued to deal with the situation, it would seem appropriate that the regulations also be amended to include specific directions with respect to the movement of mobile homes and their contents. The new instructions referred to were issued in the fall of 1963 and the Department decided that a year's experience would be required to assess their effectiveness. Based on experience gained in the trial period, new regulations are now being prepared.
3. **EXCESSIVE PAYMENTS FOR TRAVEL ON TRANSFER.**—Servicemen are permitted by the regulations to use their personally-owned automobiles to transport themselves and their dependents to new places of duty and are entitled to claim mileage allowances to cover transportation, meals and accommodation expenses based on direct road mileage at various rates, formulated on the basis of a Service member travelling 300 miles per day. The regulations also provide reimbursement of the cost of meals and accommodation at destination during the period the serviceman is awaiting the arrival of his furniture and effects or while arranging permanent accommodation. In the course of audit it was noted that Service Orders presently permit the payment of both allowances in cases where moves of less than 300 miles are completed in one day. As a result, the entitlement for meals and accommodation is in effect duplicated and the cost becomes excessive. A restrictive instruction is now under consideration by the Department.
4. **UNECONOMICAL MODE OF TRANSPORTATION.**—Under present regulations members on duty travel may at the discretion of the Commanding Officers use their motor cars for their own convenience. In the audit, instances were observed where two or more members of the same unit travelled to the same destination for the same purpose, each member being allowed to use his own car and receive the applicable mileage allowance. For example, five Army members travelled singly from Calgary, Alberta, to Meaford, Ontario, and return, each using his motor car and claiming the mileage allowances provided for by the regulations. Had they travelled as a group by rail, a saving of some \$400 would have been effected. When this matter was brought to the attention of the Department, instructions were issued to assist Commanding Officers to determine whether approval should be granted servicemen to use personally-owned motor cars for their own convenience on duty travel.

57. *Lease termination payments.* The Public Accounts Committee has been recommending since 1960 that the maximum term for lease termination payments to servicemen be reduced from three months' rent as presently permitted to the equivalent of one month's rent. Following the recommendation contained in its Fifth Report 1961, the Department amended the regulations to provide for discretionary powers to be exercised in dealing with individual cases, but it did not go as far as to reduce the maximum period from three months to one month.

In its Sixth Report 1964 the Public Accounts Committee expressed the opinion that the present regulation permitting payment of three months' rent is too susceptible to abuse and results in a waste of public funds. The Committee again recommended that the regulations be changed to reduce the maximum period to one month, but as it does not wish to see servicemen penalized, it further recommended that there be a proviso that payment up to three months may be made in cases of hardship, provided such cases are approved by the Deputy Minister (see Appendix 1, item 23). We have been informed that the matter is currently under review by the Department.

58. *Educational costs incurred by the Department of National Defence.* In the 1963 Report (paragraph 65) it was noted that audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants receivable from the provincial Department of Education, in some cases claims not having been made in respect of outlays eligible for grants. In its Sixth Report 1964 the Public Accounts Committee requested the Auditor General to follow this matter up to determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate (see Appendix 1, item 26).

At the close of the fiscal year action was being taken to ensure that applications for grants are properly made in future and, following correspondence with the Department of Education of Ontario with a view to obtaining grants underclaimed in prior years, the Department is preparing revised claims for submission to the Province.

59. *Construction of destroyer escort vessels.* In 1950 and 1951 the Department of Defence Production awarded 13 contracts on a cost plus 5% profit basis to 7 shipyards for the construction of destroyer escort vessels for the Royal Canadian Navy, the last of which was commissioned in November 1959.

Part of the construction work involved incorporating into the ships certain components supplied by the Crown. As the actual cost of the components manufactured by other contractors had not been determined, a billing price was estimated, but nevertheless the shipyards were charged on a firm price basis. The amounts of the billings thus became part of the shipyards' cost on which the 5% profit was calculated. While the final costs for all components were not available at the fiscal year-end, it is estimated that the billing prices exceed actual cost by some \$1,483,000.

As a consequence, excess profits of some \$74,000 have been paid by the Crown on the shipyard contracts. We have drawn this to the attention of the Department and steps have been taken to effect recovery from the contractors.

60. *Equipment disposed of in error.* In April 1963 a unit of electronic aircraft navigational equipment, originally costing more than \$9,000 and having an estimated replacement cost of \$15,000, was returned for repairs to an Air Force supply section. Due to an error, the equipment, instead of being repaired, was declared as surplus to Crown Assets Disposal Corporation and was sold to a customer, together with other surplus materiel, at a scrap price of \$20. The purchaser in turn sold the equipment for a nominal sum to an individual who, being aware of the actual value of the unit, refused to return it and be reasonably compensated.

A Board of Inquiry concluded that faulty procedures respecting the determination as to whether materiel should be declared surplus to Crown Assets Disposal Corporation contributed to the improper disposal and expressed apprehension that similar instances might have occurred. The Department has since revised its procedures.

61. *Medical fees improperly retained by a Service medical officer.* Contrary to Service regulations and orders, an Air Force medical officer retained amounts received from the Group Surgical Medical Insurance Plan for medical treatment provided to dependents of Service personnel in a Service hospital. In March 1963 the officer was found guilty of conduct to the prejudice of good order and discipline and was reprimanded and fined \$200, but no action was then taken to recover the amount improperly retained by him.

In October 1963 the officer was released from the Service at his own request, without restitution having been requested from him or made by him. In August 1964 the matter was referred to the Department of Justice which has demanded payment of \$4,053 from the former officer.

62. *Town of Oromocto, N.B.* In 1955 the Governor in Council approved a proposal by the Department of National Defence to establish the Town of Oromocto, N.B., adjacent to Camp Gagetown. Subsequently in 1956 the Town was incorporated by an Act of the Province which provided for an administrative board of seven commissioners, four appointed by the federal government and three by the Province. The object in establishing the Town was to provide municipal facilities to serve not only military personnel stationed at Camp Gagetown but a civilian population as well, in order to avoid the growth of a purely military community.

To implement the proposal, the Department turned over to the Town without charge roads and services already installed in the housing area together with a fringe area of land. This assistance was augmented by capital grants totalling \$1,500,000 to enable the Town to further develop its roads and services for the purpose of attracting private sponsors for the various shopping, civic institutional and industrial areas. To complete the physical

development of municipal works, the Crown provided capital assistance loans to the Town amounting in all to \$4,450,000 over the years from 1957 to 1961.

In the beginning it was expected that the operating expenses of the Town would be financed mainly from grants in lieu of taxes on federal property and that this burden would shift gradually as civilian interests in the Town developed. The shift has not materialized with the result that annual operating grants provided by the Crown continue at a high level and it is now expected this condition will exist for many years to come.

The following table summarizes the capital grants, capital assistance loans and operating grants paid to the Town since its inception:

<u>Year</u>	<u>Capital grants</u>	<u>Capital assistance loans</u>	<u>Operating grants</u>
1955-56	\$ 750,000	—	\$ 50,000
1956-57	750,000	—	50,000
1957-58	—	\$ 1,500,000	350,000
1958-59	—	1,500,000	960,000
1959-60	—	1,000,000	1,656,000
1960-61	—	450,000	1,600,000
1961-62	—	—	1,529,000
1962-63	—	—	1,489,000
1963-64	—	—	1,800,000
	<u>\$ 1,500,000</u>	<u>\$ 4,450,000</u>	<u>\$ 9,484,000</u>

Repayments of the above capital assistance loans have totalled \$735,000 to March 31, 1964 while interest amounting to \$1,110,000 has been received to the same date. Funds for these payments have been provided out of the annual operating grants provided by the Department of National Defence.

The Town's operating costs for the calendar year 1963 amounted to \$2,030,000 while its revenues totalled only \$209,000. The Department of National Defence owns 1,900 housing units representing about 90% of the value of all property in the Town.

A substantial part (over 50%) of the annual operating costs relates to expenditure for the operation of seven schools attended by dependents of servicemen occupying married quarters in the Town. The cost of operating the schools has been a matter of concern to the Department and Treasury Board for some time. A study of this matter by Treasury Board staff disclosed that the cost per pupil for 1962 in the Fredericton, N.B., school system was \$205 compared with \$304 per pupil at Oromocto. The Treasury Board has requested the Department to advise it as to the action proposed to reduce the excessive education costs.

The capital assistance loans referred to above have from year to year been classified as assets in the Statement of Assets and Liabilities (Exhibit 2). In both the 1959 and the 1962 Reports the Audit Office suggested that in view of the very small amount of

revenue accruing to the Town (currently and in the foreseeable future) it seemed unrealistic to continue to treat the loans to the Town as an asset item for purposes of the Statement of Assets and Liabilities. The Public Accounts Committee, after reviewing this matter, recommended in its Sixth Report 1964 that the Department of Finance give consideration to writing off these loans to expense (see Appendix 1, item 25).

63. *Military assistance to the United Nations and Indo-China Truce Commissions.* Canadian defence forces are presently engaged in peace-keeping operations for the United Nations in five countries. In this connection, the Department of National Defence has absorbed the initial cost of transporting equipment and personnel to the Middle East and the Congo, travel and removal expenses in Canada, normal pay and allowances, clothing and personal equipment, etc., which at March 31, 1964 totalled approximately \$39 million. In turn, the United Nations accepted the responsibility of reimbursing Canada for foreign and special allowances of serving personnel, abnormal depreciation of equipment supplied by Canada and used by Canadian forces, the cost of operating special Air Force flights at the request of the United Nations, and items such as vehicles, Ordnance stores, and medical supplies specifically ordered from Canada for the use of the United Nations forces. Total recoverable expenditures over the years have amounted to \$23 million, of which \$2,700,000 was outstanding at the fiscal year-end.

Canada also has military personnel serving with the Indo-China Truce Commissions in Vietnam and Laos. Expenditures relating to these operations are on a cost-sharing basis and by March 31, 1964 amounted to some \$10,200,000, of which \$8 million was absorbed by Canada and \$2,200,000 classed as recoverable. Outstanding recoverable expenditures at the fiscal year-end amounted to \$415,000.

64. *Pension awards effective at early age.* In our 1963 Report (paragraph 68) reference was made to the number of servicemen being retired at an early age with immediate annuities. It was stated that in such cases the amount of the annuities is not large due to the short periods of service, but the potential cost is substantial because of the relatively longer expectancy of life. The Department of National Defence had been considering the advisability of introducing deferred pensions similar to those available to civilian employees.

The Public Accounts Committee gave consideration to this problem and in its Sixth Report 1964 requested that it be kept informed as to the progress being made (see Appendix 1, item 28).

No change in this respect has yet been made in the Canadian Forces Superannuation Act and we noted that during the year under review 286 immediate annuities, aggregating \$42,000, were awarded by the Service Pension Board to retiring Service personnel ranging in age from 27 to 40 years. About 57% of these retirements were based on medical grounds, and in the majority of the other cases the normal pension based on years of service was reduced up to 30% because of the early age of retirement.

65. *Discretionary awards of Service pensions.* In our 1963 Report (paragraph 69) it was noted that in determining pension awards, every possible consideration is given to the welfare of the individual serviceman, and it is sometimes questionable whether a reasonable balance is struck between fairness to servicemen on the one hand and economy of public funds on the other.

In the year under review similar cases were noted of which the following are examples. In four instances servicemen were awarded full annuities on being retired compulsorily for medical unfitness. Information on the files indicated the reason given for retirement was of secondary importance to others, which, had they been recognized officially, would have resulted in the aggregate in a reduction in capitalized value of the annuities awarded of approximately \$45,000. Each of the servicemen was 28 years old and had served the minimum period of time to qualify for pension.

In one of these cases a medical release was recommended although in the opinion of the Medical Board the serviceman did not require hospitalization or active therapy in the immediate foreseeable future. Another serviceman was overweight, a condition that existed on enrolment, and presumably lacked motivation to regain normal fitness. Another instance concerns an airman who was determined to leave the Service on the completion of his current engagement in order to return to school. He had indicated his intention not to re-engage, but was granted a medical release apparently to prevent a possible re-engagement. The fourth case deals with a medical release following a long period of domestic trouble and eventual psychological disturbance. At the time of his release the serviceman was not incapacitated and the Audit Office view is that he was actually released "to promote economy and efficiency".

In considering this matter, the Public Accounts Committee noted that the Department is endeavouring to achieve a system under which the entitlements to all pensions would be specific. If this were possible, it would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee in its Sixth Report 1964 has asked to be kept informed of any action taken to revise the present system (see Appendix 1, item 29).

66. *Questionable pensionable service.* Under section 5 (b) (ii) of the Canadian Forces Superannuation Act, British Service members who, after a career in that Service, transfer to the Canadian Forces are permitted, on payment of contributions, to count full-time war and peace service in the United Kingdom Forces as pensionable on retirement from the Canadian Forces.

It is the practice to allow such members to include in their pensionable service time served as "boy" (under 18 years of age) in the United Kingdom Forces, although this type of service is not pensionable under British Service rules. In 11 of some 24 instances noted in the audit, pensionable service was increased by at least three years and the resulting pensions were materially increased as a consequence of including "boy" service.

67. *Unemployment Assistance.* Under the Unemployment Assistance Act, 1956, c. 26, as amended, the federal government contributes to the provinces and territories 50% of the cost of providing financial assistance to persons unemployed and in need.

In paragraph 71 of last year's Report we repeated the opinion, expressed in previous Reports, that the Unemployment Assistance Act administered by the Department of National Health and Welfare includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. In its Fourth Report 1963 the Public Accounts Committee concurred in this view and major changes in the legislation are currently under study by the Department (see Appendix 1, item 4).

Matters reported in previous years to illustrate the varying interpretations given to the terms of the Act are not commented on again this year except to bring previous information up to date.

OVERPAYMENTS TO PROVINCE OF QUEBEC.—In last year's Report we stated that the final adjustments in respect of overpayments referred to in our 1962 Report, which related to the period from July 1, 1958 to December 31, 1961, were still under consideration. The Department has now established an amount of \$62,000 which it considers to be the amount of the overpayment for this period although the Province of Quebec has not yet signified its agreement.

The arrangement, first reported in 1961, whereby the Audit Services Branch of the Office of the Comptroller of the Treasury participated with the Provincial Auditor of Quebec in a joint audit of the accounts received by the Province from social welfare agencies and homes for special care was terminated with the completion of the audit of claims for the period July 1, 1958 to December 31, 1961. Claims for periods subsequent to December 31, 1961 are examined and certified by the Provincial Auditor in accordance with the Unemployment Assistance Agreement, prior to examinations made on behalf of the federal government. The Provincial Auditor's examination covers all elements of unemployment assistance costs included in the provincial claims with additional verification of payments to social agencies and homes for special care by reference to the records of those institutions.

SUPPLEMENTAL ALLOWANCES IN BRITISH COLUMBIA.—In last year's Report we noted that the Province of British Columbia had objected to the amount of \$111,400, established by the Audit Services Branch as the estimated amount of the overpayment of supplementary allowances resulting from the application of individual budgetary assessments of need in place of means tests, and that a new calculation of the overpayment was being made. The recalculation was completed during the year under review and the Department and the Province of British Columbia have accepted the amount of \$4,900 reported by the Audit Services Branch as being the revised amount of the overpayment. As \$111,400 had previously been withheld from payments to British Columbia, the difference of \$46,500 was paid to the Province during the current year to complete the adjustment.

ACCUMULATION OF COMFORTS ALLOWANCES.—We have previously pointed out a number of anomalies that have arisen in the administration of amounts which recipients of unemployment assistance who are residents of homes for special care are allowed to retain out of their personal incomes for comforts not provided by the institutions. Some of these still continue, and our examinations during the year under review indicate that in many cases these comforts allowances are not spent currently by the recipients but are retained by the institutions in trust accounts where they accumulate and may be used to cover expenses excluded from shareable unemployment assistance costs by section 4 (2) (d) of the Act. It is our view that accumulation of funds in this way for some future indeterminate use is not consistent with the Agreement.

DETERMINATION OF NEED.—There are instances in which certain types of income are ignored in calculating the amount of welfare assistance to be paid. While there is no doubt that the determination of need is within the jurisdiction of the provinces, it does not seem reasonable that in arriving at need some income should be considered and some excluded. Not only does this appear to be a deviation from the needs test basis but it discriminates against the recipients who do not have this kind of income.

STRENGTHENING OF ADMINISTRATIVE CONTROL.—Last year we stated that the Department had accepted our suggestion that it assemble an internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. Recruitment of this staff commenced in 1963-64 and was completed during the current year. By stationing these federal representatives at the provincial capitals, the Department expects to establish an effective liaison with the provinces and maintain a continuous comprehensive review of provincial welfare administration and legislation as they affect federal-provincial shared-cost programs in the welfare field. Strengthening of the Department's control procedures and examination of claims in this manner should make the administration of the unemployment assistance program less difficult in the future.

68. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* In our examination of transactions under agreements with the provinces pursuant to the Hospital Insurance and Diagnostic Services Act, it appeared doubtful whether the terms of the agreements relating to payments by the provinces to federal hospitals were being adhered to in all instances.

Generally speaking, the basis of settlement with federal hospitals called for by the agreements is a per diem rate calculated in the same manner as for other hospitals comparable in terms of size, facilities, standards of service and location. One notable exception is the Province of Alberta where the rate under the Agreement is the rate provided in section 5 of the regulations under the provincial Act for persons admitted as in-patients to approved hospitals who are not eligible for insured services.

There are a number of complicating factors which have made it difficult to carry out the terms of the agreements that relate to federal hospitals. In the first place, the

system of accounts in federal hospitals, although usually uniform for hospitals under the jurisdiction of one department, varies from department to department and generally speaking is not in accordance with the Canadian Hospital Accounting Manual which is the basis of accounting for purposes of the Hospital Insurance and Diagnostic Services Act. Moreover, in many of the Indian hospitals neither the accounting nor medical records could be said to be adequate for purposes of the agreements under the Hospital Insurance and Diagnostic Services Act. As a result, few of the hospitals are in a position to submit the required financial returns. Secondly, many federal hospitals are specialized institutions and it is often difficult or impossible to find a truly comparable institution. Thirdly, the average length of stay for similar illnesses and age groups is almost invariably considerably higher in federal hospitals which, of course, means greatly increased cost to the provinces if the same per diem rates are allowed the federal hospitals.

In Alberta, for example, although the rate payable is that fixed by provincial regulation, the Province has for several years paid less than this rate on the grounds that the lengths of stay in federal hospitals are considerably above the provincial average. It contends that, taking into account the longer stays for which they are being paid, federal hospitals are being fairly dealt with.

Whatever the problems may be, it seems clear that steps should be taken to bring federal hospital accounting in line with requirements where necessary, and revisions to the agreements should be made to the end that all the terms may be fully complied with. In the present circumstances it is not always possible to adequately appraise settlements being made.

69. *Payment of duty on coasting trade vessel deferred.* The owner of a foreign-built British vessel applied for a licence to engage in the coasting trade of Canada. Section 670 of the Canada Shipping Act, R.S., c. 29, states that a coasting licence shall be issued to foreign-built British ships upon payment of the duty which the Customs Act and related regulations require to be paid in full. The owner was accordingly assessed duty on the vessel under tariff item 440 at the rate specified, viz., 25% ad valorem on the fair market value of hull, machinery, furniture and appurtenances. On August 6, 1963 the Department instructed its collector at the port of entry to issue the licence but, because the owner could not pay the duty of \$10,078 in full, arranged to accept a down payment of \$3,000 on August 12, 1963 and post-dated cheques payable monthly through September 30, 1964 to cover the balance. No interest was charged.

The Customs Act is not only specific under section 22 in requiring that duties must be paid in full at the time goods enter Canada but also provides under section 79 that:

"No person shall make, nor shall any officer accept any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods."

To further protect the revenue, the Act provides penalties under section 235(1) to be assessed against a collector or other officer who allows payment of duty to be avoided or deferred:

"Every collector or other officer who allows the payment of duties of Customs to be avoided or deferred for any cause or consideration whatsoever, except by regular entry for warehouse, is liable to a penalty equal to the full value of such goods, and the duty accruing thereon, which shall be recoverable in any court of competent jurisdiction, from him or his sureties or either of them."

When the Department instructed its collector at the port of entry to issue the coasting licence to the owner of the ship, the collector was advised that special arrangements had been made in the Department regarding payment of duty. As a consequence of carrying out this instruction, involving as it did payment of duty on an instalment basis, the collector immediately rendered himself liable to the penalty imposed by section 235 (1) which amounted to \$50,391. On September 26, 1963 the full amount of this penalty was remitted by an Order in Council under authority of section 22 of the Financial Administration Act. The remission is shown on page 43·13 of the Public Accounts for the fiscal year 1963-64.

On drawing the irregularity of these steps to the attention of officers of the Department, we were informed that they are of the opinion that payment of the duty in the manner described was legalized by remission of the penalty assessed against the collector and that the procedure used is proper within the meaning of the legislation involved.

It is the opinion of the Audit Office that the penalty provision contained in section 235 (1) of the Customs Act exists for the protection of the revenue against collectors or other officers who may allow payment of duties to be avoided or deferred, and that the action of the Department in penalizing the collector for its own failure to collect the duty in full and then causing the penalty to be remitted is irregular and undesirable. If it is not, then it would appear that any section of any Act with respect to which there is a penalty within the meaning of section 22 of the Financial Administration Act could be circumvented simply by using the device of having a public officer deliberately contravene any such section and then remitting the penalty incurred by his unlawful act.

Section 670 is one of the sections in Part XIII of the Canada Shipping Act and, as already stated, specifically provides that a coasting licence may be issued to a foreign-built British ship only if the duty has been paid. Section 673 in Part XIII gives the Governor in Council the following power:

"The Governor in Council may, from time to time, by order in council declare that the foregoing provisions of this Part shall not, for the period specified in such order in council, apply, either throughout Canada or in any specified waters of Canada, to the ships or vessels, or to any specified, ascertained or ascertainable class or number of the ships or vessels, of any foreign country."

It was noted that the Order in Council referred to above also exempted the vessel in question from the provisions of Part XIII of the Act. Since the power of the Governor in Council in section 673 is restricted to ships of "any foreign country", it seems to us that the exemption could not apply to the vessel in question which is a foreign-built British ship. In reply to our inquiry concerning this, departmental officers stated they were treating the ship as though she were a foreign ship because the duties were being deferred and not paid at the time the coasting licence was granted.

70. *Remission of duties on certain motor vehicles and parts.* Sections 22 (1) and 79 of the Customs Act, R.S., c. 58, as amended, read as follows:

"22. (1) Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer."

"79. No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods."

Order in Council P.C. 1963-1/1544 of October 22, 1963, passed pursuant to section 22 of the Financial Administration Act, remits all customs duties payable with respect to certain motor vehicles and motor vehicle parts to the extent by which the Canadian content value of vehicles and parts exported by the importer in three designated periods exceeds the Canadian content value exported during the base year November 1, 1961 to October 31, 1962.

In actual practice the Department generally refrains from exacting payment of duties at the time of importation and waits for a period of several months to one year or more until the extent to which the importer is able to comply with the export conditions as set out in the remission order is determined. To the extent that the importer cannot comply, he must pay the duties.

In effect, the Department is deferring payment of duty until such time as the amount, if any, which the Governor in Council has remitted is determined, and it is the Audit Office view that the Department lacks authority to do this because of the requirements of sections 22 (1) and 79 of the Customs Act.

71. *Refund of sales tax on materials used in construction of certain buildings.* Section 17A of the Excise Tax Act, 1963, c. 12, reads as follows:

"Where materials have been purchased by or on behalf of

- (a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution, or

(b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis,

and the tax imposed by Part VI has been paid in respect of those materials, the Minister may, upon application by such institution or organization in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to such institution or organization an amount equal to that tax."

Because an actual tabulation of the sales tax paid on the many items entering into the construction of a building is extremely difficult, it was the opinion of the Department that the arrangements by which educational institutions could obtain a refund of sales tax must be simplified.

Accordingly Order in Council P.C. 1964-1/692 of May 12, 1964 approved a formula for determining sales tax refundable on materials used exclusively in the construction of buildings for schools, universities or other similar educational institutions or public libraries, to be used by persons entitled to a refund of sales tax pursuant to the provisions of section 47A as an alternative to the present standard refund claims procedure. The formula is designed to determine the approximate value of taxable material in a building and to estimate the amount of the refund that may be claimed.

Section 47A directs the Minister to pay an amount equal to the tax that has been paid and there does not appear to be any authority in the Excise Tax Act to pay a refund based on an estimated taxable value of materials incorporated into a building.

72. *Refunds of duties and taxes on estimated basis.* In order that Canadian airlines may be in a tax position comparable to foreign airlines, the Governor in Council, under authority of section 22 of the Financial Administration Act, grants remission of duty, sales and excise taxes paid on parts, equipment and consumable maintenance stores for aircraft operating in international service.

The Department of National Revenue finds it administratively impractical in some cases to determine actual quantities to which remissions should apply and so relies on considered estimates in calculating the remissions to be granted.

A similar situation exists with respect to refunds to provincial governments of taxes paid indirectly. These too are estimated carefully for refund purposes in order to avoid excessive clerical costs.

If these practices, which are not now recognized by the taxing statutes, are to continue they should receive legislative sanction.

73. *Refund of duty paid on goods diverted to use other than that for which they were imported.* In a number of cases the customs tariff provides alternative rates of duty on certain goods, depending on the use to which they are to be put when imported.

No specific authority is contained in the Customs Act under which the Department may grant refunds in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then

been imported. Nevertheless, the Department as a matter of equity has adopted a policy of making refunds in such cases, treating the original payment as "duty paid in error".

It is the view of the Audit Office that if this policy is to be continued it should have legislative sanction.

74. Possible loss of revenue when goods lose tax-exempt status. Equipment is sometimes imported to be leased to an institution which is exempt from duty and sales tax, with ownership remaining with the importer.

In such cases the Department requires that the importer be in possession of a lease commitment from a tax-exempt institution and that a copy of this be filed with the relative customs import entry. Entry is also contingent on the equipment being exported under customs supervision on expiration of the lease or duty being paid on an appraised value with allowance for depreciation. The Department permits the transfer of the equipment from one tax-exempt institution to another but if the equipment is warehoused it loses its exempt status and duty must be paid.

Similar situations exist where there is entitlement to make domestic purchases free of sales tax. Should any article so purchased be later transferred to an end use that is not exempt from tax, either the new purchaser or the vendor must report and pay the proper tax.

Having laid down the rules governing goods which lose their tax-exempt status, the Department placed on the owners the onus for reporting any duty or tax payable and no departmental control of non-tax paid equipment or goods was maintained. Consequently, it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

75. Loss on buildings abandoned. In paragraph 86 (11) of our 1961 Report, reference was made to the construction of two houses at the customs port of Pigeon River, Ontario, in 1957 at a cost of \$45,000. At that time one of the houses had not been occupied and the Department was paying the cost of fuel oil and electricity in addition to the regular expenses of upkeep. Two other houses had been built for Customs-Excise officers at this port, one in 1950 at a cost of \$16,000 and one in 1954 at a cost of \$21,000. Two houses had also been built by the Department of Citizenship and Immigration in 1955 and 1956 at a cost of \$50,000. A dormitory and a warehouse erected in 1947 and 1951 respectively, cost \$11,000. The cost of these departmental buildings at the site of the customs port thus amounted to \$143,000, exclusive of the cost of land. In the period when the houses were available for occupancy, one had been vacant for seven months, one for twelve months, while the one mentioned in the 1961 Report was occupied for only nine months in its six years of existence.

In September 1963 a new bridge was constructed over the Pigeon River and the customs port was moved to the new location eleven miles to the east. The question of

moving the six houses was considered but because of the excessive cost of such an operation it was decided to abandon the houses and their related buildings. Departmental officers now live in or near Fort William or Port Arthur and each receives a daily mileage allowance for commuting between his home and the port—a distance of approximately 40 miles.

The houses were declared surplus in November 1963 and turned over to Crown Assets Disposal Corporation which has since disposed of them for \$8,145 on the condition that they be removed from the site. The Department has furnished us with the following reasons for this stipulation:

- (1) to have sold the buildings without such a requirement might have led to their occupancy, thereby aggravating the problem of uncontrolled border crossing while the old bridge remained in place;
- (2) the Ontario Department of Highways was unable to give any assurance that the dead-end road leading to the old bridge site would be maintained;
- (3) the possibility existed that the provincial government might include the area in question in the development of a provincial park.

The land on which the buildings had stood was declared surplus to Crown Assets Disposal Corporation in October 1964.

76. *Drawback paid on goods destroyed after release from Customs.* Order in Council P.C. 1961-1135 of August 9, 1961 established regulations governing drawbacks of customs duties, sales tax and excise taxes paid on goods imported and subsequently exported or destroyed.

We have been informed that the Order was passed in accordance with sections 275 and 277 of the Customs Act, R.S., c. 58, as amended. These sections are as follows:

“275. (1) The Governor in Council may, under regulations made by him for that purpose,

- (a) allow, on the exportation of goods which have been imported into Canada and on which a duty of customs has been paid, a drawback equal to the duty so paid with such deduction therefrom as is provided in such regulations; and
- (b) allow a drawback equal to the duty paid, with such deduction therefrom as is provided in such regulations, or a specific sum in lieu of such drawback, in respect of materials used in, wrought into or attached to goods exported, or in respect of materials (not to include fuel or plant equipment) consumed in the manufacture or production of any such goods.

(2) The period within which such drawback may be allowed, after the time when the duty was paid, shall be limited in such regulations.”

“277. The Governor in Council may interpret, limit or extend the meaning of the conditions upon which it is provided in any Act imposing duties of Customs that any article may be imported free of duty for special purposes, or for particular objects or interests; and may make regulations for declaring or defining what cases shall come within the conditions

of such Act, and to what objects or interests of an analogous nature the same shall apply and extend, and may direct the payment or non-payment of duty in any such case, or the remission thereof by way of drawback, if such duty has been paid."

The Customs Act makes no specific or general reference to imported goods destroyed in Canada but section 22 (6) of the Financial Administration Act as amended directs that:

"No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

Because of this the Audit Office entertains doubt as to the validity of section 3 (1) (a) (ii) of Order in Council P.C. 1961-1135 providing for the payment of a drawback on goods "destroyed in Canada at the expense of the owner under Customs supervision".

The case which attracted attention to this matter involved a refund of \$2,525, representing a 90% drawback of customs duty paid on imported machinery which after duties were paid and after release from Customs but before actual use, was destroyed by fire in the warehouse of the importer. The goods were recognizable after the fire to the extent that the serial numbers could be deciphered but the machines were not considered usable. Later they were completely destroyed by sledge hammer under supervision of a Customs officer.

In our opinion it is questionable whether the Governor in Council under authority of the Customs Act may authorize drawback of all or part of the duties paid on goods which are destroyed when section 22 (6) of the Financial Administration Act expressly forbids the Governor in Council to remit the tax under the same circumstances.

77. Waiving of postage charges. Section 22 (1) of the Financial Administration Act reads:

"The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty."

The Post Office Department has at no time made use of this section. Instances occur from time to time where for one reason or another, but particularly because the second class mail regulations are extremely complex, errors in the application of postal rates have resulted in under-collections of postage revenue. When such an error is detected the practice has generally been to impose the correct rate from the time the error was noted and to forgive the past.

The Post Office Department considered the waiving of charges for postage to be an administrative discretion, but in our opinion it is not within the Department's power to exercise discretion in waiving a charge for postage that is properly payable. Any relief to be given is the prerogative of the Governor in Council under section 22 of the Financial Administration Act.

78. *Departmental decision not to dismiss an employee.* Section 57 of the Civil Service Act provides authority for the suspension of an employee during an investigation of alleged misconduct or incompetence. The procedure upon completion of the inquiry is prescribed in section 59 of the Act which states:

- "59. (3) Upon completion of the investigation or proceedings, as the case may be, the deputy head shall
- (a) if as the result of the investigation or proceedings he is satisfied that the employee has been guilty of misconduct or incompetence
 - (i) recommend the dismissal or demotion of the employee, or
 - (ii) suspend the employee for a further period not exceeding six months; or
 - (b) if as the result of the investigation or proceedings he is not satisfied that the employee has been guilty of misconduct or incompetence, rescind the suspension retroactively to the time it was first imposed."

The officer in charge of a postal station was suspended under section 57 of the Civil Service Act pending investigation of a fire and alleged robbery. When an audit revealed extensive falsification of the accounts, the suspended officer admitted falsifying the cash accounts and accepted responsibility for a shortage of \$2,156. The Department rescinded the suspension and retired the employee on the basis of his having reached 60 years of age (with the consequent entitlement to an immediate annuity under the provisions of the Public Service Superannuation Act) on the understanding that he would reimburse the Crown for the deficiency. Collection was made from the annuity.

If the employee had been dismissed for misconduct, his entitlement to a superannuation benefit, other than a return of contributions, would have been conditional upon a decision of the Treasury Board. In view of the provisions of section 59 (3) (a) of the Civil Service Act, quoted above, this would appear to have been the proper course of action.

79. *Second class mail.* In its Fourth Report 1963 the Public Accounts Committee expressed the belief that early consideration should be given by Parliament to the alternatives of revising upward the rates of postage on Canadian publications or providing an annual appropriation in an amount sufficient to cover the loss of the Post Office in handling second class mail (see Appendix 1, item 1). The Committee requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent Committees might give consideration to it.

The costs of handling the various classes of mail have in the past been estimated by the Department by means of a cost ascertainment procedure in which time studies were used. There has been no cost ascertainment study since 1961-62 which was the last of the triennial tests. This study has been used as a basis for analysing the revenues and costs of the years 1962-63 and 1963-64 and as a result of this projection, the loss on handling second class mail was estimated to amount to \$35 million in 1963-64. However, the Post Office Department now considers that the costs already allocated to first class mail should be increased by 15% in consideration of the preferential treatment accorded to this mail. This surcharge against first class mail would amount to about \$17 million in 1963-64,

with the result that the costs applicable to other classes of mail and other postal services will be reduced by the same amount. The Department has not made any calculation of the effect that this reduction will have on the loss applicable to second class mail.

The Department has engaged a firm of consultants to look into its cost ascertainment procedures with a view to producing more accurate costs with respect to the various classes of mail.

During the year under review second class mail revenues declined by \$203,000 to \$8,183,000. The Department attributes this decline to a reduction in the advertising content of some publications and to the acceptance of enclosures in publications at the per pound rate in place of the higher printed matter rate charged prior to April 1, 1963.

With effect from April 1, 1964, the Department substantially increased the postage rate on newspapers and periodicals mailed by the general public (as opposed to mailings by publishers) by withdrawing the second class postage rate formerly applicable to this mail and making it subject to the higher printed matter rate. We are informed that this is expected to increase postal revenue by \$560,000 annually.

The Government presently has before Parliament proposals for revisions of postal rates, three of which are in respect of second class matter mailed by publishers. We are informed that these three proposals are primarily intended to simplify the rate structure, and that they will probably reduce the revenue from publishers by approximately \$135,000 annually.

80. *Defalcations in the Malartic area of Quebec.* In 1960 former employees of the Department of Public Works in the Malartic area complained that the wages they had received from the Department were less than had been reported for income tax purposes. A preliminary investigation of this circumstance indicated the probability that various types of irregularities had occurred in the years 1955 to 1960 in connection with a substantial number of minor river cleaning, wharf repair and construction projects carried out in the area. Subsequent investigations by the Royal Canadian Mounted Police have established that fraud was perpetrated in a number of ways involving both departmental employees and suppliers in connection with over 70 projects, and including payroll padding, fictitious and inflated suppliers' invoices, etc.

Since these defalcations first came to light, recoveries have been effected as a result of legal actions taken against employees and suppliers concerned. These recoveries, amounting to \$13,803 to date and involving 26 individuals and firms, are being reported for the first time during the year under review in the Statement of Losses (Public Accounts, page 43-29).

As the Department turned over the investigations with respect to these losses to the Royal Canadian Mounted Police, it has not maintained records of the amounts for which each of the numerous individuals concerned was considered responsible. Consequently it does not have a calculation of the total loss involved or of the amount which, because of failure to recover, must in due course be charged to the Public Officers Guarantee Account.

We have pointed out to the Department the information that will be required in order to finally dispose of these losses and understand that this is now being compiled.

81. *Cost of plans for administration building for Department of Agriculture.* In 1955 an architect was engaged by the Department of Public Works to prepare plans and specifications for and to supervise the construction of a headquarters building in Ottawa for the Department of Agriculture. From 1957 to 1960 payments totalling \$190,500 were made to the architect for the design phase of his undertaking, representing three-fifths of the full fee of 5% on the originally agreed cost estimate of \$6,350,000. In 1961 the architect was instructed to carry out certain revisions to the existing building plans to meet new requirements. Because extensive revisions were required—which resulted in a new cost estimate of \$10,408,000—it was agreed that the amount to be paid to him could be fairly assessed only on a time and cost basis. Provisionally it was estimated that this might involve an additional amount of \$250,000. By February 1964, however, the architect had claimed costs of \$428,013 with respect to the 1961 revisions of which he was paid \$262,087 prior to March 31, 1964. In August 1964 the Treasury Board approved payment of the balance bringing to \$618,513 the architect's remuneration for the design work on the building.

Had no revisions of building plans been involved, the design portion of the full fee relating to the actual contract price of \$9,266,500 as at March 31, 1964 would have amounted to only \$278,000. Construction of the building commenced in October 1963 and is scheduled for completion in April 1966.

82. *Accounting for advance planning of construction projects.* In 1954 the Department of Public Works initiated an appropriation in its Estimates, "To provide for advance planning of projects including acquisition of sites". The purpose was to avoid the necessity of listing items in the Estimates before planning had commenced or land had been acquired. Like provision was made in the Estimates of succeeding years, including the year under review. Although the revised form of the Estimates for the 1964-65 fiscal year has resulted in the elimination of a separate appropriation for the purpose, provision for advance planning appears in the Details relating to several of the Department's construction votes.

In 1957 the Treasury Board agreed that the Advance Planning vote could be used for the planning of construction projects which were to be charged to the appropriations of other departments. The Board emphasized, however, that in such circumstances charges to the Advance Planning vote were to be regarded as advances, to be recovered from the other departments as soon as convenient in the same fiscal year; otherwise, construction costs for which other departments were responsible would be divided between their accounts and those of the Department of Public Works. The Board reiterated this position in subsequent years.

In 1963 the Department of Public Works recommended to the Treasury Board that any charges to the Advance Planning vote in connection with other departments'

construction projects be permitted to remain as final charges to that vote, thus eliminating the reimbursement features required by the Treasury Board. Although no relaxation of the requirement has come to our attention, the Advance Planning vote for 1963-64 remained charged with architects' fees, legal costs, etc., of \$15,844 in connection with the planning for a building, the construction of which will be the financial responsibility of the Department of Forestry. No reimbursement was sought from that Department. The situation is drawn to attention because, in our opinion, it remains undesirable for the costs of a project to be divided between the accounts of two departments.

83. *Damage to Coast Guard vessel.* On August 8, 1963, in what was described as "fine clear weather with excellent visibility", a Canadian Coast Guard ship of the Department of Transport ran aground in the St. Lawrence River while en route from Trois Rivières to Quebec. Damages which cost \$147,671 to repair were sustained. The departmental investigation that followed indicated that there were no extenuating circumstances and that the officer in charge of the vessel at the time of the accident was solely responsible.

The case was submitted to the Department of Justice and the opinion was given that the accident was mainly attributable to the negligence, major in character, of the officer in charge. He was assessed the maximum penalty of \$250 pursuant to the Claims Regulations and transferred to another position.

The foregoing is an example of losses borne by the Crown under its policy of acting as its own insurer. In order that Parliament may be more completely informed, such losses should be summarized or otherwise recorded in the Public Accounts.

84. *Financial consequence of faulty ship design.* In 1961 a firm of naval architects was engaged by the Department of Transport to prepare plans and specifications required for the construction of a weather ship for the Pacific coast.

After a contract for the construction of the vessel had been awarded in August 1963 at an estimated cost of \$9,915,000, the contractor informed the Department that his checking of the weight estimates inherent in the design indicated a miscalculation by the architects of about 750 tons, which would have an adverse effect on stability and displacement to the extent that structural changes would be necessary. The Department confirmed that serious errors in calculation had been made and considered ways and means of overcoming the differential in stability. As a result a number of structural changes were provided for, including the comparatively costly use of aluminum in lieu of steel in the superstructure.

The firm of naval architects has received \$117,000 representing full payment in accordance with the terms of the engagement entered into with the Department in 1961. Although construction of the weather ship will not be completed until 1966, the Department expects that the structural changes involved will increase the cost of the vessel by at least \$500,000.

85. *Repairs and alterations to Canadian Coast Guard ships.* For many years the Department of Transport has experienced difficulty in complying strictly with the requirements of the Government Contracts Regulations in respect of repairs to units of the departmental Coast Guard fleet. Because there is no way of determining, before a ship is placed in the hands of a ship repairer and opened up for examination, what the extent of repair costs is likely to be, the problem of estimating on a reasonably accurate basis and securing the necessary Treasury Board approval before the work is undertaken has been a continuing one.

A case observed during the year under review serves to illustrate the problem. In April 1963 the Treasury Board approved of entry into a contract for the annual refit repairs of a vessel at the lowest tender price of \$43,346 and at the same time authorized further expenditure of up to \$35,500 to cover any additional repairs which might be found necessary subsequent to the commencement of the work. Additional work of the type for which the \$35,500 was intended to provide was carried out at a cost of \$57,994 and the opportunity was taken to have certain alterations and additions to accommodation carried out at a cost of \$29,511. Consequently, although the ship repairer had commenced operations under a contract involving a consideration of \$43,346, the total cost of the work performed before the ship returned to service in June 1963 was \$130,851. As the original Treasury Board authority, including the contingency allowance of \$35,500, had been exceeded by \$52,005, it was necessary for the Department to make a further submission to the Board covering this amount so that the contractor could be paid. The submission was not made until November 1963. The ex post facto approval of the Board was received in the following month and the contractor was paid the amount of \$87,505 by which total costs exceeded the contract price.

86. *Contracts for cleaning of public premises.* During the past decade there has been a marked increase in the number of contracts entered into for the cleaning and caretaking of Crown-owned or leased premises and in the number of firms competing for such contracts. The business has become highly competitive and recent experience of the Department of Public Works, which administers many such contracts, has been that when tenders are called prices quoted in the majority of cases have been lower than under expiring contracts. Departmental policy has been to contract for a period of two years.

The Department of Transport also is a party to a number of like contracts and its practice has been to invite tenders for the cleaning of airport terminal buildings at two or three year intervals. This Department has also experienced lower prices in recent years which have been attributed in part to adjustments of specifications.

An exception to the general policy of the Department of Transport was observed during the year under review. In November 1963 the Department informed the Treasury Board that the contract for the cleaning of the terminal building at the airport at Windsor, Ontario, which had been for a term of three years, was due to expire. The Department recommended that the existing contract be extended for a further two year period at an annual cost of \$26,675 compared with the previous rate of \$27,000 per annum. However, the Board, which had earlier commented on the competition prevalent in the building

cleaning industry, initially declined to approve of the recommendation and directed that tenders be called. In the interim another firm experienced in airport cleaning requirements expressed interest in the Windsor undertaking and informed the Department that if there were an opportunity to tender, its bid would likely be at the rate of about \$21,600 per annum. Despite this, the Treasury Board was again approached to authorize an extension to the existing contract at the amended rate of \$26,675 per annum and in January 1964 the Board assented.

87. *Federal contribution to cost of ferry vessel.* After studies had been made of the need for extended water transportation services between the south and north shores of the St. Lawrence River in the Rimouski and Baie Comeau area, a recommendation was made to the Treasury Board in February 1961 for approval in principle of financial assistance for construction and operation of a ferry between Rimouski and Baie Comeau. The construction cost was estimated at \$4,500,000 of which 40%, or \$1,800,000, would have been paid by way of a construction subsidy together with an operating subsidy of \$600,000 in the first year, to be reduced to nil by the end of ten years.

Before a decision was reached on this recommendation, a ten-year-old United States-owned ferry boat which had become redundant on completion of a bridge over the Straits of Mackinac was offered for sale. Subsequently the Department of Transport received a request for a capital subsidy from a company which proposed to acquire this vessel for the purpose of operating a ferry service between Baie Comeau and Point-au-Père. In August 1961 the Treasury Board gave approval in principle to the granting of a subsidy, but in doing so emphasized that it considered a service of this nature to be primarily a provincial responsibility. The Board was prepared to make an exception in this particular case, however, because it was "in hand and under active consideration before the Board recommended to Cabinet a report on federal assistance to ferry and coastal services under the principles of which intra-provincial ferry services that are essentially highway links—chiefly services involving roll-on/roll-off ferries—are considered to be a matter of provincial responsibility".

In October 1961 the Treasury Board granted formal approval of a capital subsidy in a lump sum to a maximum of \$1.5 million, based on the aggregate of the actual cost of purchase, an amount to cover necessary repairs and alterations, certain furnishings and possibly customs and related charges. The company proceeded to purchase the vessel and to renovate it, at a total cost of \$2,429,800, including \$863,650 for customs duties and sales tax. An additional special duty assessment of \$1,727,300, representing 50% of the valuation of \$3,454,600 established by the Department of National Revenue for customs purposes, was levied but remitted by the Governor in Council in December 1961 under authority of section 22 of the Financial Administration Act. By January 1962, when an agreement relating to the subsidy was entered into by the Canadian Maritime Commission and the company, the Treasury Board had decided that the subsidy of \$1.5 million should be on the basis of five equal annual instalments of \$300,000 without interest rather than a lump sum, and this condition was embodied in the agreement. This course of action was decided upon by the Board "so that the federal contribution would match

the provincial undertaking to pay an operating subsidy during the first five years of the operation of this vessel." We have been informed that the provincial assistance takes the form of a subsidy which covers the previous year's operating deficit up to a maximum of \$50,000.

Because payment of the capital subsidy was to be spread over a five year period, and since the equity of the owners in the enterprise was comparatively small (a balance sheet of the company at September 30, 1963 showed paid-up capital of \$180,100), the company was obliged to borrow heavily and in consequence incurred interest charges which led to a difficult financial situation. Following representations by the company, the Treasury Board agreed to a total subsidy payment of \$600,000 during the fiscal year 1962-63, the additional \$300,000 to be in lieu of the final payment otherwise payable in January 1966.

Representations continued to be made by the company and in December 1963 it announced its intention to suspend operations of the vessel early in 1964 for the uneconomic winter season, claiming that its financial position prevented it from maintaining an uninterrupted service. This proposed step precipitated further consideration of the company's requests and the outcome was that in March 1964, by which time \$1,200,000 of the total subsidy of \$1.5 million had been paid, Executive approval of a full subsidy of \$2,363,650 was given, the balance of \$1,163,650 to be paid from funds provided specifically for the purpose in Supplementary Estimates for 1963-64 for Steamship Subventions for Coastal Services. The amount was clearly based on the final subsidy instalment of \$300,000 otherwise due in January 1965 plus the amount of \$863,650 paid in respect of customs duties and sales tax at the time that the ship was acquired. As the customs duty and sales tax had already been paid by the company, the additional payment of \$863,650 was in reality a refund of the duties paid instead of a remission. If it had been treated as a remission it would have been subject to the requirements of section 22 of the Financial Administration Act and in consequence the nature of this element of the subsidy would have been recorded in the Public Accounts in accordance with subsection (8) of section 22.

The payment of the subsidy was made conditional on the company retaining ownership of the vessel and operating it in the performance of the ferry service for a five year period commencing on January 2, 1962 and not making any application for transfer of registry of the vessel out of Canadian registry during the same period, unless with the prior consent of the Canadian Maritime Commission. Otherwise, the company is obligated to repay the full subsidy with interest. When the agreement relating to the subsidy was entered into by the Maritime Commission and the company in January 1962, the company was required to provide security for the performance of all its terms and conditions in the form of a second mortgage on the ship, which was subject to a first mortgage in the amount of \$900,000. The secondary nature of the security is recorded in the agreement relating to the subsidy and mention of such agreement is made in the mortgage instrument. With the \$300,000 balance remaining out of the original subsidy of \$1.5 million, together with the additional subsidy of \$863,650, the company refinanced its mortgage indebtedness whereupon the Crown mortgage was rated as a first mortgage. However, in order that a new first mortgage for \$350,000 could be registered as such, the

Crown mortgage was discharged and replaced by a new second mortgage which was registered on August 14, 1964. The security held by the Crown covering its total capital subsidy of \$2,363,650 is therefore still subject to a first mortgage, now in the amount of \$350,000, given with respect to other indebtedness of the company.

88. *Defalcation at Gander International Airport.* During the year under review the closing out of a bank imprest account which had been maintained by the Department of Transport at Gander International Airport for the purpose of making local disbursements led to the discovery that revenues accruing to the Crown had been misappropriated during the period March 1951 to June 1963 to the extent of \$42,800. The defalcation was concealed in the earlier years by altering duplicate deposit slips and utilizing subsequent collections to cover amounts previously misappropriated. Such methods eventually became unwieldy and the bank imprest account was resorted to as a source from which funds to cover the shortage were obtained. This was possible only because of a breakdown in the normal procedures for the operation of a governmental bank account.

The internal audit procedures of the Department have since been reviewed and supplemented to include additional tests of bank transactions which in our opinion should result in the early detection of any misappropriation of this type. The Audit Office work programs in respect of activities of a like nature to those at Gander have also been appraised to ensure that they are reasonable and adequate in the circumstances.

A charge has been laid against the departmental employee involved in the case. The amount of the loss which has been charged to the Public Officers Guarantee Account appears in the Statement of Losses (Public Accounts, page 43·29).

89. *Awards under the Pension Act.* Reference was made in our 1960 Report to certain administrative practices which it was thought warranted parliamentary attention, to inconsistencies in this Act, and to the difficulty in determining whether certain payments, particularly those in respect of discretionary and compassionate awards and awards to persons in a dependent condition, were in conformity with the provisions of the Act. In 1961 the Public Accounts Committee, after studying the comments, made certain recommendations in its Fifth Report 1961 which led to the administrative practices referred to being corrected but did not result in amending legislation to eliminate the inconsistencies or clarify the ambiguities referred to. These comments, together with further inconsistencies in the Act referred to in the 1962 Report, were again reviewed by the Public Accounts Committee in 1964. In its Eighth Report 1964 (see Appendix 1, item 45) the Committee made the following recommendations:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death

may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

90. *Civilian war pensions and allowances.* The Civilian War Pensions and Allowances Act, R.S., c. 51, was amended in 1962 (chapter 11), by the addition thereto of Part XI which made available to designated groups of civilians associated with the war effort the same allowances that are available to war veterans. It was pointed out in last year's Report (paragraph 89) that the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act contain provisions that no payment may be made to a recipient of an allowance under the War Veterans Allowance Act, but that no provisions have yet been made to prohibit payments to recipients of civilian war allowances. The situation remains unchanged.

91. *War veterans allowances.* In our 1962 Report the comment was made that action was seldom recommended by the War Veterans Allowance Board to enforce the provisions of the Act and its Regulations relating to financial penalties or imprisonment, or both, for making false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of an award. The view was expressed that unless the Act was amended to provide heavier penalties which the Board is prepared to enforce, deliberate deceptions of this type can be expected to continue. Attention was also drawn to two anomalies in the application of the War Veterans Allowance Act and Regulations: (a) that the definition of "personal property" in the regulations makes no mention of mortgages or agreements for sale, and, as a result, allowances are being made available to some whose sizeable holdings of mortgages or agreements for sale would preclude their qualifying were their assets in another form; and (b) that proceeds from the sale of a recipient's home were not considered to be personal property for a year after the date of sale, even when a new less expensive residence or a residence subject to a mortgage was purchased shortly after his former home was sold, thus allowing the continuation of payment of allowances in cases where the recipient was in possession of assets in excess of those permitted by the Act.

The 1963 Report (paragraph 88) reiterated these comments and noted that there had been an increase in the number of persons affected because an amendment (1962, chapter 11) to the Civilian War Pensions and Allowances Act provided for payment of the same allowances to certain civilians. It also drew attention to the problems encountered in respect of income of children where children are involved in awards, because of inconsistencies in the provisions of the Act on the one hand, and in the application given to provisions of the Act on the other hand. The table of allowances, Schedule A of the Act, sets out in column III the maximum total annual incomes, including allowances, which the various classes of recipients may receive. Where the spouse is recognized as the dependent (Classes 2 and 4), the schedule shows the total permissive income followed by the words "total for veteran and spouse", whereas where the child is recognized as the dependent (Class 3) the amount appears without restrictive or qualifying wording; thus, for this latter class, the Board has concluded, no income other than that of the recipient was intended to apply and none is being taken into account in determining the allowance payable to the recipient. In consequence, there is an inconsistency in that, while an increased allowance for maintenance is payable in both cases because of a dependent, the income of one class of dependent is taken into account while the income of another class is not.

One of the classes of income the Act exempts for purposes of calculating the maximum permissive income of a recipient is money or assistance received from any province or municipality by way of relief to dependent children. A portion of the social assistance payments made to the head of a household has been exempted by considering it relief to dependent children. While it is mathematically possible to determine the increments that are paid because of the children, the approach under welfare legislation is to consider the needs of the family as a unit and, therefore, in our opinion, no part of this assistance payment should be considered income of the dependent children. In law, it is maintenance income of the head of the household and all of it should be taken into consideration in determining the war veterans allowance entitlement of the recipient.

The Public Accounts Committee reviewed the above comments and in its Eighth Report 1964 (see Appendix 1, item 46) made the following recommendations:

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

92. *Unpaid accounts carried forward to new fiscal year.* Four instances were noted in which appropriations for 1963-64 were insufficient to meet accounts coming in course of payment in that year. In each instance Parliament had been asked for supplementary appropriations and these were granted by means of Supplementary Estimates (E)—the final supplementary estimates of the year. However, the appropriations requested were substantially less than the amounts required for payment of the accounts coming in course of payment at the end of the year. The departments concerned are:

1. DEPARTMENT OF NATIONAL DEFENCE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$13,653,000 (Vote 35e) for Operation and Maintenance, Royal Canadian Air Force. This amount was substantially short of the amount actually required and accounts amounting to more than \$12 million had to be carried forward and paid out of funds appropriated for the year 1964-65.
2. DEPARTMENT OF MINES AND TECHNICAL SURVEYS (Dominion Coal Board).—Although the 1963-64 Supplementary Estimates (E) included an additional amount of \$3,914,600 (Vote 140e) for payments in connection with movements of coal, this proved to be substantially short of the amount required to meet claims that came in course of payment to the close of the fiscal year. The result was that claims amounting to \$2,380,000 had to be carried forward to the fiscal year 1964-65.
3. DEPARTMENT OF FINANCE.—The 1963-64 Supplementary Estimates (E) included an additional amount of \$2,800,000 (Vote 45e) for payment of municipal grants. This amount was insufficient to cover the remaining grants which were approved for payment in the fiscal year 1963-64 and grants totalling \$806,503 had to be carried forward for payment in 1964-65.
4. DEPARTMENT OF NATIONAL HEALTH AND WELFARE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$2,000,000 (Vote 25e) for the payment of hospital construction grants to the Provinces and Territories. This amount was insufficient to meet the remaining claims in the year under review, and claims totalling \$458,000 had to be carried forward and paid out of funds appropriated for the year 1964-65.

Another charge properly applicable to the fiscal year under review but which has been carried forward as part of the current assets item "Departmental working capital advances and revolving funds" is a balance of \$2,555,000, included in "Agricultural Commodities Stabilization Account" balance of \$63,954,000 (see paragraph 97). This is the amount by which the \$122,235,000 provided by Appropriation Act, No. 2, 1964, Department of Agriculture Vote 172e, the final supplementary estimates of the year, fell short of meeting the loss of \$124,790,000 (exclusive of administrative costs and the estimated cost of major services provided without charge by government departments) experienced by the Agricultural Stabilization Board during the year under review (see also paragraph 163).

93. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1963-64 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the Post Office numbered 21 and amounted to \$81,364. Of these, 8 involving \$3,448 were recovered in full during the year, and partial recoveries of \$23,330 were obtained in other cases.

During the year the attention of the Treasury Board was directed to the fact that the total of \$168,263 shown as outstanding at March 31, 1963 in the "Summary" of losses (1962-63 Public Accounts, page 37-14) contained 38 balances dating back as far as 1952-53 on which final action by way of adjustment, recovery, or charge to the Public Officers Guarantee Account had not been reported. Of these, 14 balances have been reviewed and further action is being reported in the 1963-64 Public Accounts involving a net reduction of \$11,691 in the amount outstanding.

Losses suffered by the Post Office Department in 1963-64 numbered 138 and amounted to \$91,735. Of these, 101 to a total of \$53,526 were recovered in full and partial recoveries totalled \$14,021.

94. *Non-productive payments.* In its Fifth Report 1961 the Public Accounts Committee requested the Auditor General to include in his future annual Reports to the House of Commons a listing of the non-productive payments which might have come to his notice in the course of his audit.

After considering the listings of these non-productive payments which were included in the 1962 Report and in Appendix 1 of the 1963 Report, the Committee expressed concern at the increasing number which were being noted. It requested that the Auditor General continue to include listings in his annual Reports of all non-productive payments coming to his notice in the course of his audit.

In accordance with this request, a listing is given as Appendix 2 to this Report of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1963-64. It will be noted that there are 35 items listed in this appendix which compares with 37 items listed in the previous year's Report.

The listing given in Appendix 2 does not detail non-productive payments noted in the course of our examination of the accounts of Crown corporations. Details of these will be found in the individual paragraphs in the Crown corporations' section of this Report.

Summary of Assets and Liabilities

95. The Statement of Assets and Liabilities as at March 31, 1964, with comparable figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.

Assets

96. The following table lists the assets at March 31, 1964, by main headings in the Statement of Assets and Liabilities, in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1962	March 31, 1963	March 31, 1964
Current assets	\$ 1,246,179,000	\$ 820,411,000	\$ 1,287,063,000
Advances to the Exchange Fund Account ..	1,793,000,000	2,736,000,000	2,601,000,000
Sinking fund and other investments held for retirement of unmatured debt	19,432,000	22,312,000	—
Loans to and investments in Crown corporations	3,985,330,000	4,468,119,000	4,584,195,000
Loans to national governments	1,339,797,000	1,210,777,000	1,195,685,000
Other loans and investments	993,863,000	1,110,655,000	1,197,816,000
Securities held in trust	25,837,000	26,016,000	38,882,000
Deferred charges	727,826,000	936,644,000	400,361,000
Suspense accounts	136,000	136,000	141,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	10,226,224,000	11,425,894,000	11,399,967,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	\$ 9,679,840,000	\$ 10,879,510,000	\$ 10,853,583,000

97. *Current assets.* The balances included under this heading at March 31, 1964, with the comparable balances at the close of the two previous years, were:

	March 31, 1962	March 31, 1963	March 31, 1964
Cash	\$ 895,321,000	\$ 511,347,000	\$ 984,643,000
Departmental working capital advances and revolving funds:			
Agricultural Commodities Stabilization Account	132,783,000	139,043,000	63,954,000
Defence Production Revolving Fund	27,297,000	39,068,000	27,791,000
Bullion and coinage accounts	20,655,000	27,212,000	29,401,000
Stockpiling of uranium concentrates	—	—	13,537,000
Other	42,645,000	37,944,000	34,123,000
	223,380,000	243,267,000	168,806,000
Securities held for the Securities Investment Account	94,608,000	33,480,000	99,860,000
Other current assets	32,870,000	32,317,000	33,754,000
	\$ 1,246,179,000	\$ 820,411,000	\$ 1,287,063,000

The \$63,954,000 balance of the Agricultural Commodities Stabilization Account at March 31, 1964 was \$75,089,000 less than the corresponding amount at the end of the preceding year due to a sharp reduction in inventories of butter and pork and to the write-off of an inventory revaluation loss of \$50,845,000 and a fire loss of \$5,032,000.

The decrease of \$11,277,000 in the government's equity in the Defence Production Revolving Fund was due to deliveries of defence supplies to customers during the year and to a substantial increase in accountable advances received from customers. In addition, the working capital advance to Canadian Arsenals Limited was reduced by \$1 million.

The amount of \$13,537,000 for stockpiling of uranium concentrates represents charges in 1963-64 to Department of Trade and Commerce Vote L63c which provided \$20,000,000 for the acquisition in the 1963-64 and 1964-65 fiscal years of uranium concentrates by Eldorado Mining and Refining Limited on behalf of Her Majesty in right of Canada and for the cost of stockpiling the uranium concentrates so acquired.

The \$99,860,000 balance of the Securities Investment Account represents, at amortized cost, temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act. The large increase, \$66,380,000, over the corresponding balance at the close of the preceding year was due mainly to a substantial holding of Government of Canada treasury bills at March 31, 1964.

98. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum (\$3,000,000,000 at March 31, 1964) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The advances to the Account at each year-end are included in the Statement of Assets and Liabilities at their total, less repayments, with a parenthetical note giving the market value of the investments from the advances. Thus at March 31, 1964 the amount shown for Advances to the Exchange Fund Account was \$2,601,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$2,631,200,000, indicating an unrecorded surplus of \$30,200,000. By comparison, at the close of the preceding year there was an unrecorded surplus of \$21,046,000.

A summary of the transactions in the Account for its financial year ended December 31, 1963 is included in paragraph 177 of this Report.

99. *Sinking fund and other investments held for retirement of unmatured debt.* This item represented the investments held for the sinking fund maintained with respect to Newfoundland loans which were assumed under the Terms of Union. The loans reached maturity during the fiscal year under review and the sinking fund was closed out.

100. *Loans to and investments in Crown corporations.* The following schedule shows the nature of these loans and investments at March 31, 1964:

	Capital stock at cost	Advances	Total
Central Mortgage and Housing Corporation		\$ 1,916,142,000	\$ 1,916,142,000
Canadian National Railways	\$ 995,533,000	415,353,000	1,410,886,000
The St. Lawrence Seaway Authority		415,761,000	415,761,000
Farm Credit Corporation		338,873,000	338,873,000
National Harbours Board		198,134,000	198,134,000
Export Credits Insurance Corporation	5,000,000	53,375,000	58,375,000
Canadian Overseas Telecommunication Corporation		55,462,000	55,462,000
Atomic Energy of Canada Limited	15,000,000	38,660,000	53,660,000
National Capital Commission		52,987,000	52,987,000
Polymer Corporation Limited	30,000,000		30,000,000
Northern Canada Power Commission		22,388,000	22,388,000
Eldorado Mining and Refining Limited....	8,247,000		8,247,000
Canadian Arsenal Limited		7,500,000	7,500,000
Bank of Canada	5,920,000		5,920,000
Canadian Commercial Corporation		5,500,000	5,500,000
Canadian Broadcasting Corporation		3,000,000	3,000,000
Canadian National Railways—re Yarmouth-Bar Harbour ferry		739,000	739,000
Canadian National (West Indies) Steamships Limited	1,000	324,000	325,000
Canadian Patents and Development Limited	296,000		296,000
	<u>\$ 1,059,997,000</u>	<u>\$ 3,524,198,000</u>	<u>\$ 4,584,195,000</u>

The total of \$4,584,195,000 (an increase of \$116 million over the previous year) does not represent the total equity of the Government of Canada in its Crown corporations at March 31, 1964. This equity, in fact, amounted to \$6,088,172,000 as shown by their individual financial statements published in Volume III of the Public Accounts. The principal reason for this is that the Government of Canada maintains its accounts on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of capital assets which were charged by the Government as expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. On the other hand, the corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice, and in a number of cases have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year used by the Government.

The excess of \$1,503,977,000 existing at March 31, 1964 as a result of the foregoing is reconciled and explained in Appendix 12 to be found in Section 9 of Volume I of the Public Accounts, entitled "Government of Canada Equity in Crown Corporations as at March 31, 1964".

The advances to Central Mortgage and Housing Corporation increased by \$113 million resulting from additional advances of \$120 million, less repayments of \$68 million, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, together with advances of \$79 million, less repayments of \$16 million, in respect of Federal-Provincial projects. Other advances were repaid to the extent of \$2 million.

The total for Canadian National Railways reflects a decrease of \$28 million during the year due to repayments of \$53 million of previous years' advances, offset to the extent of \$25 million by a further investment in 4% preferred stock in the company pursuant to section 12 of the Canadian National Railways Financing and Guarantee Act, 1962-63, 1963, c. 31.

The amount shown for The St. Lawrence Seaway Authority reflects an increase of \$25 million comprising additional loans during the year of \$11 million and a net increase of \$14 million in deferred interest on loans (see paragraphs 112 and 159).

The amount for Farm Credit Corporation shows an increase of \$70 million over the preceding year due to further loans of \$67 million under the Farm Credit Act, 1959, c. 43, and an additional \$3 million subscription to the capital of the Corporation by the Government under section 12 of the Act.

The amount shown for Export Credits Insurance Corporation reflects an increase of \$23 million in advances to enable the Corporation to provide financing for long-term export sales of capital goods.

The \$53 million shown for National Capital Commission represents an increase of \$12 million in loans to the Commission for the purpose of acquiring additional property in the National Capital Region.

Loans to Northern Ontario Pipe Line Crown Corporation which amounted to \$110,555,000 at March 31, 1963 were repaid in full during the year under review following the sale of the Northern Ontario section of the all-Canadian natural gas pipe line.

101. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1964 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1962	March 31, 1963	March 31, 1964
Belgium	\$ 34,605,000	\$ 32,298,000	\$ 29,991,000
France	135,200,000	67,600,000	67,600,000
India	24,831,000	20,117,000	25,424,000
Netherlands	68,850,000	32,130,000	32,130,000
United Kingdom	1,074,476,000	1,057,045,000	1,039,277,000
Other countries	1,835,000	1,587,000	1,263,000
	<u>\$ 1,339,797,000</u>	<u>\$ 1,210,777,000</u>	<u>\$ 1,195,685,000</u>

The reduction of \$15 million during the year under review was due to a repayment of \$18 million by the United Kingdom on its loan authorized by the United Kingdom Financial Agreement Act of 1946. Although India repaid \$5 million of its loan for the purchase of wheat and flour, the balance at March 31, 1964 shows an increase of \$5 million due to a loan of \$10 million for the purchase in Canada of aircraft and associated spare parts. No payments were due from France or the Netherlands during the year because of the special payments made during the previous year.

102. *Other loans and investments.* The balances comprising this asset item at March 31, 1964, with the comparable balances at the end of the two previous years, were:

	<u>March 31, 1962</u>	<u>March 31, 1963</u>	<u>March 31, 1964</u>
Subscriptions to capital of and working capital advances and loans to international organizations	\$ 659,936,000	\$ 693,998,000	\$ 702,130,000
Veterans' Land Act advances	207,953,000	224,486,000	243,327,000
Less—Reserve for conditional benefits	30,598,000	28,467,000	26,357,000
	<i>177,355,000</i>	<i>196,019,000</i>	<i>216,970,000</i>
Loans to provincial governments	97,879,000	116,818,000	113,652,000
Temporary loans to Old Age Security Fund	—	41,679,000	99,960,000
Housing projects for the Canadian Forces	6,430,000	12,514,000	17,930,000
Balances receivable under agreements of sale of Crown assets	10,622,000	8,303,000	5,959,000
Other balances	41,641,000	41,324,000	41,215,000
	<u>\$ 993,863,000</u>	<u>\$ 1,110,655,000</u>	<u>\$ 1,197,816,000</u>

The following is a listing of the balances comprising the \$702,130,000 shown for the first item in the above table as at March 31, 1964:

Subscriptions to capital:	
International Monetary Fund	\$ 577,250,000
International Bank for Reconstruction and Development	80,483,000
International Development Association	32,798,000
International Finance Corporation	3,522,000
	<u>694,053,000</u>
Working capital advances and loans	8,077,000
	<u>\$ 702,130,000</u>

During the year, Canada subscribed an additional \$8 million to the capital of the International Development Association.

The increase of \$58,281,000 in temporary loans to the Old Age Security Fund represents the deficit resulting from transactions during the fiscal year 1963-64 in the special account provided for by section 11 of the Old Age Security Act, R.S., c. 200. The following is a summary of the transactions relating to the Fund during the past three years:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Collections of tax			
On sales	\$ 284,879,000	\$ 302,239,000	\$ 331,760,000
On personal incomes	258,950,000	273,650,000	302,600,000
On corporation incomes	100,125,000	115,250,000	115,750,000
	<u>643,954,000</u>	<u>691,139,000</u>	<u>750,110,000</u>
Payments of pensions under the Old Age Security Act	625,107,000	734,382,000	808,391,000
Deficiency (surplus) for the year	(18,847,000)	43,243,000	58,281,000
Preceding year's balance brought forward	17,283,000	(1,564,000)	41,679,000
Deficit (surplus) at year-end	<u>\$ (1,564,000)</u>	<u>\$ 41,679,000</u>	<u>\$ 99,960,000</u>

103. *Securities held in trust.* The amount of \$38,882,000 shown under this heading represents securities held for the following accounts: guarantee deposits in respect of oil and gas permits, \$21,308,000; contractors' securities, \$6,607,000; guarantee deposits in respect of customs duties and excise taxes, \$4,763,000; securities held for pilots' pension funds, \$4,209,000; and other, \$1,995,000.

104. *Deferred charges.* The balances included under this heading at March 31, 1964, with the comparable balances at the close of the two previous years, were:

	<u>March 31, 1962</u>	<u>March 31, 1963</u>	<u>March 31, 1964</u>
Unamortized portion of actuarial deficiencies—			
Public Service Superannuation Account	\$ 276,661,000	\$ 276,661,000	\$ 276,661,000
Canadian Forces Superannuation Account	326,300,000	524,849,000	—
Royal Canadian Mounted Police Superannuation Account	3,533,000	3,533,000	—
	<u>606,494,000</u>	<u>805,043,000</u>	<u>276,661,000</u>
Unamortized loan flotation costs	121,332,000	131,601,000	123,700,000
	<u>\$ 727,826,000</u>	<u>\$ 936,644,000</u>	<u>\$ 400,361,000</u>

The amounts appearing under the heading "Unamortized portion of actuarial deficiencies" represent the balances of amounts credited to the superannuation accounts to

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cover actuarial deficiencies in those accounts with offsetting charges to this "Deferred charges" account. In the fiscal year ended March 31, 1964 the balances in this account pertaining to the Canadian Forces and the Royal Canadian Mounted Police were written off to net debt as an accounting adjustment in respect of prior years' transactions.

The item "Unamortized loan flotation costs" records the unamortized portion of the cost of discounts and commissions incurred in the issuance of loans. The following is a summary of the transactions for the year under review:

Balance, April 1, 1963	\$ 131,601,000
Add:	
Costs incurred in issuing new loans during the year	39,058,000
Adjustments due to cancellations, exchanges, conversions and additional issues of existing loans	4,237,000
	<hr/>
	174,896,000
Deduct:	
Amortization charges included in 1963-64 expenditure	51,196,000
	<hr/>
Balance, March 31, 1964	<u><u>\$ 123,700,000</u></u>

105. *Suspense accounts.* The \$141,000 shown for this item on the assets side of the Statement represents the balance of the Cheque Adjustment Account, which reflects the total of the individual balances that remained unadjusted in the process of reconciling payments to the chartered banks for redemption of paid cheques with the relative amounts as subsequently determined. The balance includes amounts relating to the fiscal years 1942-43 to 1961-62 (see paragraph 124).

106. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1964, unchanged from the two previous years, comprised the following balances:

Loan to China, in 1946, under the Export Credits Insurance Act	\$49,426,000
Loans to Greece and Roumania, in 1919, for the purchase of goods produced in Canada	30,854,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company (carrying prior guarantee by the Government of China)	14,470,000
Loan to Province of Saskatchewan, in 1908, for the purchase of seed grain—last payment received in 1959-60	74,000
	<hr/>
	<u><u>\$94,824,000</u></u>

Liabilities

107. The following table lists the liabilities at March 31, 1964 by main headings in the Statement of Assets and Liabilities in comparison with the corresponding balances at the close of the two previous fiscal years:

	<u>March 31, 1962</u>	<u>March 31, 1963</u>	<u>March 31, 1964</u>
Current and demand liabilities	\$ 1,234,244,000	\$ 1,631,478,000	\$ 1,619,961,000
Deposit and trust accounts	266,624,000	225,203,000	196,454,000
Annuity, insurance and pension accounts ...	4,245,942,000	4,747,017,000	5,131,054,000
Undisbursed balances of appropriations to special accounts	115,135,000	119,952,000	111,601,000
Deferred credits	94,991,000	107,739,000	119,447,000
Suspense accounts	5,305,000	6,055,000	5,118,000
Unmatured debt	16,945,736,000	17,961,836,000	18,740,097,000
	<u>\$ 22,907,977,000</u>	<u>\$ 24,799,280,000</u>	<u>\$ 25,923,732,000</u>

108. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1964, in comparison with the corresponding balances at the close of the two previous years, were:

	<u>March 31, 1962</u>	<u>March 31, 1963</u>	<u>March 31, 1964</u>
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association ..	\$ 372,032,000	\$ 757,284,000	\$ 586,996,000
Accounts payable	280,711,000	267,364,000	342,673,000
Outstanding treasury cheques	265,821,000	266,549,000	319,894,000
Interest accrued	174,601,000	196,974,000	215,973,000
Interest due	73,846,000	79,461,000	91,894,000
Matured debt	36,439,000	32,467,000	26,820,000
Other balances	30,794,000	31,379,000	35,711,000
	<u>\$ 1,234,244,000</u>	<u>\$ 1,631,478,000</u>	<u>\$ 1,619,961,000</u>

109. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1964 in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1962	March 31, 1963	March 31, 1964
Indian trust funds	\$ 28,523,000	\$ 28,877,000	\$ 29,167,000
Guarantee deposits	10,403,000	12,505,000	27,375,000
Post Office Savings Bank	27,365,000	25,880,000	24,605,000
Deposits by Crown corporations	24,175,000	30,004,000	13,650,000
Canadian Pension Commission (Administration trust fund)	12,087,000	13,024,000	13,490,000
National Harbours Board	7,592,000	7,855,000	13,320,000
Instalment purchase of bonds by public service employees	12,416,000	12,297,000	12,535,000
Contractors' holdbacks	17,793,000	17,724,000	8,604,000
Contractors' security deposits	18,003,000	13,025,000	7,961,000
Korean operations pool	16,117,000	16,117,000	—
Other balances	92,150,000	47,895,000	45,747,000
	<u>\$ 266,624,000</u>	<u>\$ 225,203,000</u>	<u>\$ 196,454,000</u>

The substantial increase in the balance shown for the item "Guarantee deposits" is largely due to amounts deposited with the Department of Northern Affairs and National Resources as guarantees for oil, mineral and timber rights and licences.

The balance of \$24,605,000 shown for the Post Office Savings Bank is the amount on deposit in 301,024 depositors' accounts—a drop of \$1,275,000 and 253 accounts during the year. Interest is paid on the amounts on deposit at a rate of $2\frac{1}{2}\%$.

The reduction of \$16 million in deposits by Crown corporations was due to repayment of the deposit of Atomic Energy of Canada Limited, of which \$14 million was applied as a reduction in capital stock.

The decrease of \$9,120,000 in contractors' holdbacks is mainly attributable to a lessened tempo of construction activity.

The sharp decrease in the amount of contractors' security deposits is largely due to an extension in the use of surety bonds in recent years coupled with a decline in expenditures under contracts for which security is normally required.

The accounts of the Korean operations pool were maintained by the Australian Government and recorded the expenditures incurred by the Commonwealth countries which had participated in the Korean war, and the apportionment of these expenditures among the countries according to their respective shares. A final accounting was made during the fiscal year ended March 31, 1964 with Canada making a final payment of \$11 million. The balance in the account was cleared to non-tax revenue.

The \$45,747,000 shown for "Other balances" at March 31, 1964 represents the total of 86 balances, including: Veterans' trust funds, \$7,985,000; Army Benevolent Fund, \$5,779,000; deposits by the Government of the United States of America to cover expenditures to be made on its behalf, \$5,084,000; deferred pay of Armed Forces personnel, \$3,747,000; common school funds, \$2,678,000; prepayments to Royal Canadian Mint for coin sets, \$2,551,000; Northwest Territories revenue account, \$2,356,000; National Research Council special fund, \$2,276,000; and Emergency Gold Mining Assistance holdbacks, \$2,161,000.

110. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1964, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1962	March 31, 1963	March 31, 1964
Government Annuities Account	\$ 1,235,305,000	\$ 1,264,436,000	\$ 1,284,262,000
Public Service Superannuation Account	1,586,929,000	1,724,116,000	1,856,408,000
Canadian Forces Superannuation Account ..	1,279,239,000	1,605,797,000	1,821,525,000
Royal Canadian Mounted Police Super- annuation Account	32,136,000	37,284,000	45,987,000
Other balances	112,333,000	115,384,000	122,872,000
	<u>\$ 4,245,942,000</u>	<u>\$ 4,747,017,000</u>	<u>\$ 5,131,054,000</u>

The transactions during the year ended March 31, 1964 in each of the Accounts listed above are summarized as follows:

Government Annuities Account

Balance, April 1, 1963		\$ 1,264,436,000
Add:		
Premiums received	\$ 29,413,000	
Interest credits	48,383,000	
		<u>77,796,000</u>
		1,342,232,000
Deduct:		
Vested annuity and commuted value payments and refunds	57,092,000	
Transfer to Revenue of the excess over Fund valuation	878,000	
		<u>57,970,000</u>
Balance, March 31, 1964		<u>\$ 1,284,262,000</u>

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Public Service Superannuation Account

Balance, April 1, 1963		\$ 1,724,116,000
Add:		
Contributions by participants	\$ 59,939,000	
Contributions by Government	57,015,000	
Interest credits	71,756,000	
Other credits	390,000	
		189,100,000
		1,913,216,000
Deduct:		
Annuity payments	47,824,000	
Withdrawals of contributions	8,410,000	
Other charges	574,000	
		56,808,000
Balance, March 31, 1964		\$ 1,856,408,000

See paragraph 123 of this Report with respect to the actuarial valuation of this Account.

Canadian Forces Superannuation Account

Balance, April 1, 1963		\$ 1,605,797,000
Add:		
Contributions by participants	\$ 36,054,000	
Contributions by Government	136,155,000	
Interest credits	66,308,000	
Other credits	176,000	
		238,693,000
		1,844,490,000
Deduct:		
Annuity payments	13,365,000	
Gratuities and withdrawal allowances	9,531,000	
Other charges	69,000	
		22,965,000
Balance, March 31, 1964		\$ 1,821,525,000

Royal Canadian Mounted Police Superannuation Account

Balance, April 1, 1963		\$37,284,000
Add:		
Contributions by participants	\$ 1,795,000	
Contributions by Newfoundland	17,000	
Contributions by Government	5,887,000	
Interest credits	1,577,000	
		9,276,000
		46,560,000
Deduct:		
Annuities and allowances payments	365,000	
Termination payments	205,000	
Other charges	3,000	
		573,000
Balance, March 31, 1964		\$45,987,000

Included in "Other balances" is an amount of \$1,671,000 at March 31, 1964 for the *Members of Parliament Retiring Allowances Account*. The transactions in this Account during the year are summarized as follows:

Balance, April 1, 1963		\$ 1,295,000
Add:		
Contributions by participants	\$ 253,000	
Contributions by Government	377,000	
Interest credits	57,000	
		<hr/> 687,000
		<hr/> 1,982,000
Deduct:		
Annual allowances	298,000	
Withdrawal allowances	13,000	
		<hr/> 311,000
Balance, March 31, 1964		<hr/> <hr/> \$ 1,671,000

Also included in "Other balances" is the \$16,796,000 uninvested portion of the Unemployment Insurance Fund on deposit with the Receiver General. A summary of the transactions in the Fund during the year under review, in comparison with the corresponding amounts for the two previous fiscal years, is given in paragraph 184.

111. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances included in this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1962	March 31, 1963	March 31, 1964
Colombo Plan Fund	\$ 77,626,000	\$ 85,325,000	\$ 84,451,000
Railway Grade Crossing Fund	33,754,000	26,703,000	17,649,000
National Capital Fund	3,660,000	6,776,000	6,426,000
Centennial of Confederation Fund	—	1,000,000	3,000,000
Other	95,000	148,000	75,000
	<hr/> \$ 115,135,000	<hr/> \$ 119,952,000	<hr/> \$ 111,601,000

During the year ended March 31, 1964 an amount of \$41,500,000, provided by Department of External Affairs Vote 55, was credited to the account for the Colombo Plan, while expenditures totalling \$42,374,000 were charged to the account for aid given to countries in South and South-East Asia.

Amounts totalling \$5,100,000, provided under section 265 of the Railway Act, R.S., 234, and Department of Transport Vote 212, were credited to the account for the Railway Grade Crossing Fund during 1963-64, while expenditures totalling \$14,154,000 were incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During the year ended March 31, 1964 an amount of \$7,500,000, provided by Department of Public Works Vote 220, was credited to the account for the National Capital Fund, while amounts totalling \$7,850,000 were charged to the account for payments to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

Reference is made to the Centennial of Confederation Fund in paragraph 143 of this Report.

112. *Deferred credits.* The following is an analysis of this item at the close of the 1963-64 fiscal year and the two previous years:

	March 31, 1962	March 31, 1963	March 31, 1964
Deferred interest on loans to The St. Lawrence Seaway Authority	\$ 33,716,000	\$ 49,388,000	\$ 63,761,000
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	44,174,000	44,174,000	44,174,000
Equity in agency account of Crown Assets Disposal Corporation	7,242,000	5,884,000	5,173,000
Credits arising from the recording of agreements of sale of Crown assets	8,772,000	6,743,000	4,702,000
Other balances	1,087,000	1,550,000	1,637,000
	<u>\$ 94,991,000</u>	<u>\$ 107,739,000</u>	<u>\$ 119,447,000</u>

The only significant change during the year was the increase of \$14,373,000 in the deferred interest on loans to The St. Lawrence Seaway Authority. During the year the Authority paid \$2,500,000 on account of interest previously deferred, while payment of interest for the year 1963, amounting to \$16,873,000, was in turn deferred. This deferred interest is payable by the Authority over a 45 year period commencing in 1965, along with repayments of principal (see paragraph 159).

113. *Suspense accounts.* There was no appreciable change in this item on the liabilities side of the Statement during the year ended March 31, 1964. The year-end figure of \$5,118,000 included balances of \$1,306,000 for the unclaimed cheques account and \$1,012,000 for the National Defence replacement of materiel account. During the year credits to the latter account totalled \$362,000 for the proceeds of sales to other countries pursuant to section 11 of the National Defence Act, while an amount of \$472,000 was charged for the procurement of replacement materiel. An amount of \$145,631 collected by the Prairie Farm Rehabilitation Administration and held in this account at the year-end was subsequently paid over to certain municipalities in May 1964 (see paragraph 14 of this Report).

114. *Unmatured debt.* A summary of the unmatured debt outstanding at March 31, 1964 in comparison with balances outstanding at the close of the two previous years, is as follows:

	<u>March 31, 1962</u>	<u>March 31, 1963</u>	<u>March 31, 1964</u>
Bonds			
Payable in Canada	\$ 14,930,571,000	\$ 15,385,847,000	\$ 16,133,692,000
Payable in London	31,990,000	34,584,000	—
Payable in New York	98,175,000	376,405,000	376,405,000
	<i>15,060,736,000</i>	<i>15,796,836,000</i>	<i>16,510,097,000</i>
Treasury bills (not exceeding 180 days) ..	1,885,000,000	2,165,000,000	2,230,000,000
	<u>\$ 16,945,736,000</u>	<u>\$ 17,961,836,000</u>	<u>\$ 18,740,097,000</u>

The increase of \$748 million in the bond debt payable in Canada is the amount by which new borrowings of \$3,257 million during the year exceeded redemptions of \$2,509 million of prior issues. Canada savings bonds accounted for \$1,201 million of the new borrowings and \$690 million of the redemptions.

The entire bond debt payable in London reached maturity during the year and was paid.

Issues payable in New York were valued at the official parity rate of \$1U.S.= \$1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount shown for "unmatured debt" along with issues maturing at later dates. In addition to treasury bills of \$2,230,000,000 shown in the above summary as maturing within 180 days, the following issues, all payable in Canada, fall due within the current fiscal year:

Loan of 1961 due May 1, 1964	\$ 360,000,000
Loan of 1961 due December 1, 1964	240,000,000
Loan of 1961 due October 1, 1964	250,000,000
Loan of 1962 due February 1, 1965	350,000,000
Loan of 1963 due July 1, 1964	175,000,000
Loan of 1963 due October 1, 1964	185,000,000
Loan of 1963 due December 15, 1964	225,000,000
Loan of 1964 due February 1, 1965	65,000,000
	<u>\$ 1,850,000,000</u>

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Net Debt

115. With the Liabilities amounting to \$25,923,732,000 (paragraph 107) and the Assets to \$10,853,583,000 (paragraph 96), the Net Debt at March 31, 1964 was \$15,070,149,000. The following is an analysis of the Net Debt Account for the year under review:

Balance, April 1, 1963		\$ 13,919,770,000
Add—Deficit for the fiscal year 1963-64:		
Expenditure	\$ 6,872,401,000	
Revenue	6,253,204,000	
		619,197,000
Write-off of the unamortized portion of the actuarial deficiency in:		
Canadian Forces Superannuation Account	524,849,000	
Royal Canadian Mounted Police Superannuation Account	6,333,000	
		531,182,000
Balance, March 31, 1964		\$ 15,070,149,000

Contingent Liabilities

116. A note on the Liabilities side of the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end and makes reference to the appendix to the Public Accounts (Volume I, page 7·73) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts which were outstanding at March 31, 1964 in comparison with the corresponding amounts at the close of the two previous years:

	<u>March 31, 1962</u>	<u>March 31, 1963</u>	<u>March 31, 1964</u>
Insured loans made by approved lenders under the National Housing Act, 1954 ..	\$ 3,640,000,000	\$ 4,123,000,000	\$ 4,499,000,000
Railway securities guaranteed as to principal and interest	1,636,100,000	1,381,361,000	1,377,611,000
Deposits maintained by chartered banks in Bank of Canada	696,008,000	741,870,000	840,037,000
Guarantees under Export Credits Insurance Act, Part I	291,700,000	333,646,000	378,096,000
Loans made by chartered banks to Canadian Wheat Board	113,555,000	80,331,000	151,313,000
Other contingent liabilities of determinate amounts	66,299,000	73,998,000	82,217,000
	<u>\$ 6,443,662,000</u>	<u>\$ 6,734,206,000</u>	<u>\$ 7,328,274,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 Act.

Comments on Assets and Liabilities

117. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

118. The Statement of Assets and Liabilities as at March 31, 1964 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

"With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

"On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the 'Current and demand liabilities' schedule to the statement of assets and liabilities."

119. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year other than with respect to balances receivable by the Taxation Division of the Department of National Revenue) is given in the several departmental sections of Volume II of the Public Accounts. There is, however, no one place in the Public Accounts where information regarding the departmental totals and the substantial overall total of accounts receivable is available.

The Public Accounts Committee in its Sixth Report 1964 (see Appendix 1, item 37) expressed agreement with the Auditor General's observation that it would be more informative to Parliament were a summary showing the overall total of accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts each year. The Comptroller of the Treasury has since advised that arrangements are under way for the inclusion of such a summary in the Public Accounts commencing with the fiscal year 1964-65.

The following summary of accounts receivable includes the totals given in the departmental sections of the Public Accounts at March 31, 1964 together with the totals of balances receivable as at February 29, 1964 by the Taxation Division, as provided to us by that Division:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 590,965	\$ 754,708	\$ 15,697	\$ 1,361,370
Citizenship and Immigration ..	132,866	356,298	212,006	701,170
Defence Production	872	1,768	259,329	261,969
Finance	24,633	65,997	615	91,245
Justice	231,345	—	224	231,569
National Defence	4,337,851	1,692,217	183,100	6,213,168
National Health and Welfare ...	1,050,126	280,713	138,810	1,469,649
National Revenue—				
Customs and Excise Division ..	9,619,885*		791,330*	10,411,215
Taxation Division	189,721,781*		25,333,462*	215,055,243
Northern Affairs and National Resources	279,782	370,112	20,066	669,960
Public Works	915,483	647,264	14,439	1,577,186
Royal Canadian Mounted Police	372,392	10,349	9,729	392,470
Trade and Commerce	132,524	15,702	11,550	159,776
Transport	2,081,878	784,114	32,643	2,898,635
Unemployment Insurance—				
Commission	8,906	338	442	9,686
Fund	4,728,082*			4,728,082
Veterans Affairs	3,605,860	1,988,791	486,104	6,080,755
Other departments	302,375	65,259	25,552	393,186
	<u>\$ 218,137,606</u>	<u>\$ 7,033,630</u>	<u>\$ 27,535,098</u>	<u>\$ 252,706,334</u>

* These amounts relate to both the current and previous years.

The accounts receivable totals shown in the above table were the amounts remaining after certain uncollectable debts

- (a) of \$1,000 or less had been deleted from the accounts during the year under the authority of section 23 of the Financial Administration Act, and
- (b) in excess of \$1,000 had been written off under authority of Department of Finance Votes 56a and 56c of Appropriation Acts No. 5, 1963 and No. 3, 1964 for the year 1963-64.

A listing by departments of these deletions is as follows:

Department	Items	Deleted under authority of		Total deleted
		Financial Administration Act, sec. 23	Finance Votes 56a and 56e	
Agriculture	299	\$ 31,441	—	\$ 31,441
Citizenship and Immigration	160	5,489	\$ 5,921	11,410
External Affairs	40	11,837	14,531	26,368
Finance	192	6,850	2,944	9,794
Fisheries	2	40	1,548	1,588
Justice	6	36	18,581	18,617
Mines and Technical Surveys	31	808	1,217	2,025
National Defence	586	91,509	145,102	236,611
National Health and Welfare	4,140	80,229	—	80,229
National Revenue—Customs and Excise ..	812	5,295	1,850,947	1,856,242
Public Works	685	7,741	133,397	141,138
Royal Canadian Mounted Police	15	363	17,049	17,412
Transport	80	7,967	24,707	32,674
Unemployment Insurance Commission ..	17	332	5,070	5,402
Veterans Affairs	2,113	289,792	393,840	683,632
Other departments	111	4,124	—	4,124
	9,289	\$ 543,853	\$ 2,614,854	\$ 3,158,707

We have drawn attention in the past several years to the fact that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

The Public Accounts Committee expressed concern over this situation and in its sixth Report 1964 (see Appendix 1, item 37) suggested that the Treasury Board have the matter studied with a view to establishing procedures designed to ensure that amounts due to the Crown are adequately recorded and that an accounts receivable control system be instituted. The Committee also stated that collection procedures must be tightened up and firmly enforced.

120. *Accounts receivable*—*Department of National Revenue*. It will be noted from the table in paragraph 119 that the accounts due to the Department of National Revenue at the close of the year accounted for \$225 million of the overall total of \$253 million owing to the Crown.

With the co-operation of the officials of the Customs and Excise Division and the Taxation Division, the following analyses have been prepared showing the nature of the unpaid accounts and, in the case of the Taxation Division, the numbers and amounts of the accounts according to their age classifications.

We believe that analyses or details of this nature, amplifying at least the larger groupings of debts due to the Crown, should be prepared by the departments responsible and made available to Parliament each year through the medium of the Public Accounts or in the departmental annual reports.

CUSTOMS AND EXCISE DIVISION.—The accounts receivable of this Division at March 31, 1964 are summarized as follows:

Collectable—		
Excise tax	\$ 9,266,407	
Customs seizures	196,963	
Duties and taxes on importations	133,592	
Investigations	21,436	
Salary overpayments	1,487	
	<hr/>	\$ 9,619,885
Uncollectable—		
Excise tax	591,403	
Customs seizures	28,490	
Duties and taxes on importations	165,342	
Salary overpayments	2,456	
Sundry	3,639	
	<hr/>	791,330
		<hr/>
		<u><u>\$10,411,215</u></u>

The figures reported above do not include:

- (a) sales tax assessments made by Excise Tax Auditors but not reviewed by the Director of Excise Tax Audit prior to March 31, 1964;
- (b) disputed sales tax assessments;
- (c) additional customs duties and taxes owing by reason of amending customs entries which have remained unpaid for less than six months;
- (d) amounts determined by the Investigations Branch to be owing, other than currently active accounts.

We have discussed the foregoing omissions with the officials of the Division and have been informed that steps will be taken to ensure the prompt recording as accounts receivable of all amounts due to the Crown.

TAXATION DIVISION.—At February 29, 1964 the following amounts were owing to the Crown with respect to income tax, estate tax and succession duty administered by this Division of the Department of National Revenue:

<u>Classification</u>	<u>No. of Accounts</u>	<u>Amount</u>	<u>Total</u>
Individuals and corporations—			
Under 60 days old	32,724	\$ 17,470,122	
Over 60 days old	46,263	152,566,619	
Segregated as uncollectable	12,667	24,062,638	
			\$ 194,099,379
Tax deductions and non-residents—			
Under 60 days old	1,234	535,247	
Over 60 days old	6,109	7,210,597	
Segregated as uncollectable	1,780	1,251,977	
			8,997,821
Estate tax and succession duty—			
Under 60 days old	375	3,469,659	
Over 60 days old	297	8,467,282	
Segregated as uncollectable	3	6,152	11,943,093
	101,452		\$ 215,040,293

More than half of the total of \$215 million is made up of accounts which have not been collected for the following reasons:

1. Under appeal\$ 67,778,000
There are 844 accounts presently under appeal. When these actions are completed it is estimated the greater portion will be collected. Security is held with respect to 389 of these accounts.
2. Uncollectable 25,321,000
Uncollectable amounts in excess of \$1,000 may be written off only with the sanction of Parliament and no such approval has been sought by the Division since 1961-62. Amounts of \$1,000 or less may be written off with executive approval and accounts totalling \$813,224 were written off with this approval in 1962-63. No approval for deletion of accounts was sought during 1963-64 but the Division has since established a policy of systematic review and recommendation for write-off.
3. Under 60 days old 21,475,000
Accounts that are under 60 days old at February 29, 1964 represent recent assessments or re-assessments.
4. Duplicate assessments (estimated) 8,000,000
When deemed necessary, duplicate assessments are raised against individuals or corporations with which the originally assessed taxpayer may be associated or to which he might transfer assets.
5. Deferred tax 6,586,000
Deferred tax is collectable only on the death of a taxpayer, in accordance with section 13 of the Income War Tax Act, 1943-44, c. 14. This section gave the taxpayer the option of paying part of the 1942 tax in 1943 or thereafter at a discount or having his executors pay it from his estate.

\$ 129,160,000

121. *Agricultural Commodities Stabilization Account.* The operations of the Agricultural Stabilization Board during the year 1963-64 resulted in a loss of \$134,287,000. This loss was met to the extent of \$122,235,000 by funds appropriated by Appropriation Act No. 2, 1964, Department of Agriculture, Vote 172e, and to the extent of \$9,497,000 by major services provided without charge by government departments (see paragraph 163). The balance of the loss amounting to \$2,555,000 remains as a charge to the Agricultural Commodities Stabilization Account and is included in the balance of \$63,954,000 at March 31, 1964. This amount appears as a current asset item (see paragraph 97) although to the extent of \$2,555,000 it represents a loss which must eventually be written off to expenditure (see also paragraph 92).

122. *Loans to the Town of Oromocto, N.B.* In paragraph 62 there appears an explanation of why the Town of Oromocto, N.B., came into being with details of the financial assistance provided to it by the Government of Canada during the period from its incorporation in 1956 to March 31, 1964.

The outstanding balance of \$3,715,000 of capital assistance loans of \$4,450,000 made during the period 1957 to 1961 is included in the asset item "Other loans and investments" in the Statement of Assets and Liabilities.

As mentioned in paragraph 62, the operating costs in the calendar year 1963 amounted to \$2,030,000 while revenue totalled only \$209,000. In view of the very small amount of revenue accruing to the Town both currently and in the foreseeable future, it seems unrealistic to continue to treat the loans to the Town as an asset item for purposes of the Statement of Assets and Liabilities. The Public Accounts Committee after considering this matter recommended in its Sixth Report 1964 (see Appendix 1, item 25) that the Department of Finance give consideration to writing off these loans to expense.

123. *Unamortized portion of actuarial deficiencies.* In 1951-52, following an actuarial valuation of the Public Service Superannuation Account as of December 1, 1951, that Account was credited and a deferred charge account was debited with \$312 million. In the same year Parliament voted \$98 million as a special government contribution towards amortizing the deficiency, and this left a balance of \$214 million in the deferred charge account. In the years 1952-53 and 1956-57 further amounts of \$25 million and \$50 million were appropriated by Parliament and written off the deferred charge account, reducing it to \$139 million as at March 31, 1957. In 1960-61, following an actuarial valuation made as of December 31, 1957, the Superannuation Account was credited with \$137,661,000 and the deferred charge was increased to \$276,661,000.

A deferred charge of \$326,300,000 was recorded in 1958-59 when the balance in the Canadian Forces Superannuation Account was increased to an amount equivalent to the estimated actuarial liability as at March 31, 1958. In 1962-63, following an actuarial valuation as of December 31, 1960, adjusted to March 31, 1963, an additional \$198,549,000 was credited to the Superannuation Account and the deferred charge was increased to a total of \$524,849,000.

Similarly in 1961-62 the Royal Canadian Mounted Police Superannuation Account was credited with \$3,533,000 and the deferred charge account was debited. In 1963-64 the Superannuation Account was credited with \$2,800,000 to cover an estimated deficiency resulting from pay increases granted the R.C.M.P. in 1962-63 and the amount of the deferred charge was increased to \$6,333,000.

On March 6, 1964 the Minister of Finance informed the House of Commons of a general policy for dealing with the deficiencies in the various superannuation accounts. It was proposed to write off existing deficiencies direct to net debt and to amortize subsequent deficiencies arising from salary increases over a five-year period commencing in the year in which the increases are authorized. In accordance with this policy, and pursuant to Department of Finance Vote 68e of the Final Supplementary Estimates for 1963-64, the recorded deficiencies at March 31, 1963 of \$524,849,000 in the Canadian Forces Superannuation Account and \$6,333,000 in the Royal Canadian Mounted Police Superannuation Account were written off to net debt (see paragraph 115).

When the quinquennial actuarial report on the Public Service Superannuation Account as of December 31, 1962 was tabled by the Minister on November 12, 1964, he stated that authority would be sought from Parliament later in the year to write off to net debt the additional deficiency of \$110,536,000 revealed by the report (as well as the previously existing deficiency of \$276,661,000). The report also revealed a further deficiency of \$22,000,000 arising from salary increases authorized in July 1963 with effect from October 1, 1962 which is to be written off to expenditure over a period of five years commencing in 1964-65 (see paragraph 50).

124. *Cheque Adjustment Suspense.* As cheques issued by government departments are negotiated by the payees, they are redeemed by payments made to the banks presenting them for settlement. The volume is substantial and today amounts to five million cheques a month compared to one million twenty years ago.

Following the introduction of family allowance payments by card cheque in 1945, increased difficulties were encountered in reconciling the paid cheques with the payments made to the banks which were exceeding the total value of the cheques being removed from the outstanding cheque lists. These difficulties arose mainly from the inability of an inexperienced staff to cope with the mounting volume and the inadequacy of the mechanical equipment in use at the time. The net differences were transferred to a suspense account, the total of which reached \$141,392 by March 31, 1964. This amount represents differences prior to April 1, 1962 when the introduction of electronic processing equipment brought the situation under control.

Failure to reconcile paid cheques accurately and at regular intervals constitutes a serious weakness in any system of internal accounting control. If the differences arising from such a reconciliation cannot be accurately identified and accounted for, the possi-

bility exists that some of the cheques may have been stolen and negotiated a second time without detection. Instances of this came to light in 1960 and 1962 when prosecutions disclosed cases of extensive thefts from the Cheque Adjustment Division of paid cheques some of which were cashed a second time.

Since the introduction of an electronic processing system, it has been possible for the Cheque Adjustment Division to reconcile all payments to the banks against issue lists and outstanding cheques. In the meantime, the net differences totalling \$141,392 arising between 1942-43 and 1961-62 which had been transferred to the suspense account will presumably have to be written off.

125. *Public Service Superannuation Account.* Reference was made in paragraph 124 of last year's Report to an amount of \$276,661,000 in the "asset" account captioned "Deferred charge—Unamortized portion of actuarial deficiency—Public Service Superannuation Account". As stated in paragraph 123 of this Report, this amount is to be written off direct to net debt in the year 1964-65.

126. *Canadian Forces Superannuation Account.* In paragraph 125 of last year's Report reference was made to an amount of \$524,849,000 which was included in the "asset" account captioned "Deferred charge—Unamortized portion of actuarial deficiency—Canadian Forces Superannuation Account". As stated in paragraph 123 of this Report, this amount was written off direct to net debt in the year under review.

127. *Suspense Accounts: P.F.R.A. Community Pastures—payments to municipalities.* During 1963-64 a special levy of one cent per head per day was assessed on cattle grazing in pastures operated by the Prairie Farm Rehabilitation Administration and the sum of \$145,631 which was collected is included in the Suspense Accounts as at March 31, 1964. The pastures are operated under agreements between the Government of Canada and the Provinces of Manitoba and Saskatchewan. The levy was instituted with the concurrence of the Provinces, subsequent to representations by municipalities seeking compensation for loss of tax revenues because the pastures are operated by an agency of the Crown and thus are exempt from municipal taxes. The amount collected was paid over to the respective municipalities under date of May 26, 1964.

In the absence of any reference to this levy in the agreements with the Provinces concerned, the authority to collect the levy and pay it to the municipalities is open to question.

Amendments to the agreements with the Provinces whereby the Government of Canada will now collect the levy and remit it immediately to the municipalities concerned have since been signed.

Crown Corporations

128. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus "containing such information as, in the case of a company incorporated under the Companies Act, is required to be laid before the company by the directors at an annual meeting".

129. Section 87 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation, and the report is required to state whether, in his opinion:

- "(a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation".

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

130. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

131. Crown corporations classed as "agency" or "proprietary" corporations are listed in Schedules "C" and "D" to the Financial Administration Act. Those in the former class are responsible, in general, for the management of procurement, construction, service or disposal activities on behalf of the Crown. Those in the latter class are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

AUDITOR GENERAL'S REPORT

132. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1964:

<u>Corporation</u>	<u>Class</u>	<u>Reporting Minister</u>
Atomic Energy of Canada Limited	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Canadian Arsenals Limited	Agency	Industry
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation	Agency	Industry
Canadian Corporation for the 1967 World Exhibition		Trade and Commerce
Canadian National (West Indies) Steamships, Limited	Agency	Transport
Canadian Overseas Telecommunication Corporation	Proprietary	Transport
Canadian Patents and Development Limited ...	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Centennial Commission	Agency	Secretary of State
Cornwall International Bridge Company Limited	Proprietary	Transport
Crown Assets Disposal Corporation	Agency	Industry
Defence Construction (1951) Limited	Agency	Industry
Eldorado Aviation Limited	Proprietary	Trade and Commerce
Eldorado Mining and Refining Limited	Proprietary	Trade and Commerce
Export Credits Insurance Corporation	Proprietary	Trade and Commerce
Farm Credit Corporation	Proprietary	Agriculture
The National Battlefields Commission	Agency	Northern Affairs and National Resources
National Capital Commission	Agency	Public Works
National Harbours Board	Agency	Transport
Northern Canada Power Commission	Agency	Northern Affairs and National Resources
Northern Ontario Pipe Line Crown Corporation .		Trade and Commerce
Northern Transportation Company Limited	Proprietary	Trade and Commerce
Park Steamship Company Limited	Agency	Transport
Polymer Corporation Limited and subsidiary companies	Proprietary	Industry
The St. Lawrence Seaway Authority	Proprietary	Transport
The Seaway International Bridge Corporation, Ltd.	Proprietary	Transport

133. Since the Auditor General has not been appointed the auditor of the following Crown corporations and public instrumentalities their accounts were not examined by him during the year under review:

<u>Corporation or Instrumentality</u>	<u>Class</u>	<u>Reporting Minister</u>
Bank of Canada		Finance
Canadian National Railways	Proprietary	Transport
The Canadian National Railways Securities Trust	Proprietary	Transport
The Canadian Wheat Board		Trade and Commerce
Central Mortgage and Housing Corporation	Proprietary	Postmaster General
Industrial Development Bank		Finance
Trans-Canada Air Lines	Proprietary	Transport

In its Eighth Report 1964 (see Appendix 1, item 49) the Public Accounts Committee recommended that the Auditor General be appointed the auditor or the joint auditor of these corporations or instrumentalities.

134. The paragraphs that follow treat, in turn, with the various corporations audited by the Auditor General. In each case, an introductory comment describes briefly the origin of the corporation and the nature of its activity, and this is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the financial year in comparison with the preceding year, and any other matter which it is thought might be of interest to the House of Commons.

135. *Atomic Energy of Canada Limited.* This company was incorporated in 1952 under the Companies Act, 1934, pursuant to authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the company is in Ottawa. Nuclear reactors and major research and development laboratories are maintained at Chalk River, Ontario. A commercial products division, located in Ottawa, is responsible for the processing of radioisotopes produced in the company's reactors, the designing of equipment for the use of radioactive materials and the marketing of the products and equipment on a commercial basis. Another division, situated in Toronto, is responsible for the engineering, development, construction and management of nuclear power generating projects. The company, in co-operation with the Hydro-Electric Power Commission of Ontario, is building Canada's first full-scale nuclear power generating station at Douglas Point on Lake Huron.

A nuclear power demonstration plant at Rolphoton, Ontario, came into operation in 1962 and the steam produced is sold to the Hydro-Electric Power Commission of Ontario to generate electric power. The plant was built as a joint project of Atomic

AUDITOR GENERAL'S REPORT

Energy of Canada Limited, the Hydro-Electric Power Commission of Ontario and Canadian General Electric Company Limited to demonstrate the Canadian type of nuclear power reactor.

The Whiteshell nuclear research establishment, including housing accommodation and a shopping centre, has been under construction for the past three years at a site 65 miles north-east of Winnipeg, Manitoba, for the purpose of complementing the research and development facilities at Chalk River.

The company's accumulated costs of research facilities at Chalk River, Whiteshell and Rolphton, charged to research expense and financed by funds provided under parliamentary appropriations, amounted to \$161,359,000. The cost of the Douglas Point generating station amounting to \$33,590,000 at the year-end is being financed by Government of Canada loans.

The Crown's equity in the company at March 31, 1964 totalled \$57,333,000, comprising: loans for housing, \$7,829,000; loans for construction of Douglas Point generating station, \$32,316,000; capital stock, \$15,000,000; and retained earnings, \$2,188,000.

A by-law of the company, which authorized a reduction of \$39,000,000 in its paid-up capital, was confirmed by Supplementary Letters Patent under date of June 17, 1963. The reduction was effected by a payment of \$13,761,000 to the Receiver General and the write-off in the previous year of the undepreciated cost of \$25,239,000 of the NRU reactor (Special Appropriation Act, 1963, Atomic Energy Vote 16).

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1964	1963
<i>Research Program—Operating</i>		
Expense—		
Science	\$ 6,676,000	\$ 6,146,000
Engineering	7,954,000	8,273,000
Power projects design and development	4,663,000	5,092,000
Operation of research facilities	3,661,000	1,795,000
Maintenance and other services	3,757,000	3,772,000
Whiteshell nuclear research establishment	1,822,000	502,000
Administration	3,392,000	3,159,000
Other	1,776,000	1,788,000
	<u>33,701,000</u>	<u>30,527,000</u>
Income: Gross income from housing, hospitals, transportation, sale of steam, etc.	2,243,000	1,896,000
	<u>\$31,458,000</u>	<u>\$28,631,000</u>
Excess of expense over income		
Provided for by:		
Parliamentary appropriation	\$31,469,000	\$28,646,000
Less: Unexpended balance refundable to the Government of Canada	11,000	15,000
	<u>\$31,458,000</u>	<u>\$28,631,000</u>

	Year ended March 31	
	1964	1963
<i>Research Program—Capital</i>		
Expense: Construction of buildings and acquisition of equipment ..	\$14,219,000	\$ 9,349,000
Provided for by:		
Parliamentary appropriation	\$13,466,000	\$ 8,431,000
Retained earnings	753,000	918,000
	<u>\$14,219,000</u>	<u>\$ 9,349,000</u>
<i>Commercial Operations</i>		
Income—		
Sales	\$ 4,334,000	\$ 3,803,000
Rentals, etc.	69,000	159,000
	<u>4,403,000</u>	<u>3,962,000</u>
Expense—		
Cost of sales, etc.	2,138,000	1,858,000
Research and development	612,000	652,000
Selling	1,125,000	863,000
Administrative	414,000	373,000
	<u>4,289,000</u>	<u>3,746,000</u>
Excess of income over expense, credited to retained earnings	\$ 114,000	\$ 216,000

The increase of \$3,174,000 during 1963-64 in research operating expenses was largely due to increases in: salaries and wages including welfare benefits, \$929,000; grants in lieu of taxes, \$145,000; and costs of expendable equipment, \$236,000; together with non-recoverable costs of the NRU reactor, \$1,830,000. The Whiteshell nuclear research establishment commenced operations in July 1963 and 132 employees were added to this establishment. This, together with increases in pay granted under union contracts, accounted for the increases in salaries and wages. The increase in the grants in lieu of taxes related to the new town of Pinawa, Man., which is part of the Whiteshell establishment. For several years the sale of material irradiated in the NRU reactor and the related costs have been subject to a classified international agreement. The terms of this agreement were such that all costs of operating the reactor were recoverable. However, under the terms of an extension to this agreement these costs will no longer be recovered. The excess of the operating costs of the reactor over the revenue was absorbed as an expense of the year.

136. *Canadian Arsenal Limited*. This company was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, 1944, c.18. The main objects of the company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and

equipment, including the maintenance of physical facilities and manufacturing skills so that the operations could be expanded on short notice.

At the year-end the company, with its head office in Ottawa, was the custodian of and operated eight Crown-owned plants, the total cost of which was \$95,217,000 compared with \$99,611,000 at March 31, 1963. The decrease of \$4,394,000 largely represented the cost of assets the custody of which was returned to the Department of Defence Production, including land, buildings and equipment of the gun ammunition plant at Lindsay, Ont., which had cost \$3,225,000 and equipment of the instrument and electronics plant at Scarborough, Ont., which had cost \$700,000. Capital outlays of \$268,000 during 1963-64 were provided for by a parliamentary appropriation (Department of Defence Production Vote 40) for construction, improvements and equipment.

At March 31, 1964 the company's operations were financed by advances of \$367,000 from the Department of National Defence in respect of orders placed, advances of \$1,250,000 from the Defence Production Revolving Fund and an advance of \$7,500,000 from the Minister of Finance for working capital.

The following is a comparative summary of the results of operations for the last two years:

	Year ended March 31	
	1964	1963
Income—		
Sales	\$10,051,000	\$16,975,000
Miscellaneous	651,000	815,000
	<u>10,702,000</u>	<u>17,790,000</u>
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed	9,102,000	15,310,000
Indirect labour and other overhead expenses not absorbed in cost of sales	4,763,000	5,814,000
Administrative expenses	733,000	818,000
Plant shut-down costs	362,000	49,000
	<u>14,960,000</u>	<u>21,991,000</u>
Excess of expense over income	<u>\$ 4,258,000</u>	<u>\$ 4,201,000</u>

The company's sales reached a peak in 1954-55 when Korean war contracts were still being completed and, except for a minor increase in 1961-62, there has since been a steady decline in sales, from \$80 million for the year ended March 31, 1955 to \$10 million for the year ended March 31, 1964. The reduced level of sales, coupled with the company's obligation to maintain the Crown-owned plants in partial stand-by condition, has necessitated funds being appropriated by Parliament towards the cost of operation and administration of the company. During the year under review \$4,258,000 was provided by Department of Defence Production appropriations for this purpose.

Indirect labour and overhead expenses for the year totalled \$8,688,000, compared with \$10,804,000 for the previous year, of which \$3,925,000 was included in cost of sales. It has been the company's practice to calculate this portion of overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$4,763,000, shown in the above table as indirect labour and other overhead expenses not absorbed in cost of sales, can be largely attributed to idle capacity of production facilities.

Plant shut-down costs of \$362,000 relate to expenditures incurred in the transfer and disposal of machinery and equipment and other costs of closing the gun ammunition plant, which was sold by Crown Assets Disposal Corporation during the year, and similar expenses incurred in preparation for the closing of the instrument and electronics plant.

The company has a fund of \$401,000 on deposit with an insurance company in respect of a group plan which provides life, medical, surgical and other insurance benefits to employees and their dependents. Employees' premiums and the company's matching contribution, which amounted to \$137,000 in 1963-64, are paid into the fund. The balance on deposit, which is available for possible catastrophe, excessive claims or additional benefits without increase in premiums, represents the excess of premiums remaining after charges for the total of claims incurred, additional benefits and administrative fees charged by the insurance company. Interest is credited to the account by the insurance company at the rate of approximately 5% per annum and amounted to \$20,000 during the year under review.

Inventories of raw materials, work in process and finished goods were reduced by \$1,077,000 or 23.5% from their level at March 31, 1963. The inventory reduction included write-offs of \$97,000, largely due to the closing of the gun ammunition plant.

In the Reports for the last two years, references were made to the report of a firm of management consultants engaged in 1960 by the Department of Defence Production to study the organization of the company, the efficiency and cost of its manufacturing operations and other aspects of its activities. Of eleven major recommendations made by the consultants six had been or were in the process of being implemented. We were informed that the implementation of the remaining recommendations was dependent on the decision as to the consolidation of facilities or sale of the various operating units of the company to private enterprise.

137. *Canadian Broadcasting Corporation.* This Corporation, established by the Canadian Broadcasting Corporation Act, 1936, c.24, superseded by the Broadcasting Act, 1958, c.22, operates the national television and radio broadcasting services and also administers an international shortwave service on behalf of the Government of Canada. The head office of the Corporation is in Ottawa, with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg and Vancouver and an engineering headquarters in Montreal.

The Corporation derived its funds for operating requirements in excess of advertising revenue and also funds for its capital requirements from grants provided through parliamentary appropriations.

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At March 31, 1964, the Crown's equity in the Corporation amounted to \$45,612,000 represented by capital assets, at cost less accumulated depreciation, of \$36,612,000 and working capital of \$9,000,000.

The following is a comparative summary of the results of operations for the last two financial years:

	Year ended March 31	
	1964	1963
Expense—		
Cost of production and distribution		
Cost of programs	\$74,388,000	\$69,912,000
Network distribution	10,323,000	10,146,000
Station transmission	4,407,000	4,030,000
Payments to private stations	4,927,000	4,335,000
Commissions to agencies and networks	3,805,000	3,872,000
	97,850,000	92,295,000
Operational supervision and services	8,920,000	8,427,000
Selling and general administration	8,064,000	7,362,000
Emergency broadcasting	624,000	282,000
	115,458,000	108,366,000
Total expense including depreciation		
Income—		
Advertising revenue, etc.	33,010,000	31,403,000
Net expense	\$82,448,000	\$76,963,000

The parliamentary grant "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service" for the year of \$78,377,000, comprising net expense of \$82,448,000 shown above, less depreciation of \$4,071,000 charged for cost ascertainment purposes, was provided by the Government of Canada under authority of Canadian Broadcasting Corporation Vote 1, Appropriation Act No. 5, 1963.

The net operating amount required by the Corporation rose by \$5,722,000 from \$72,655,000 for the year ended March 31, 1963 to \$78,377,000 for the year ended March 31, 1964, an increase of 7.9%, compared with \$2,402,000, or 3.4% in the previous year. The increase in expense experienced in practically all departments was attributable to many factors. Salaries and wages increased by \$2,793,000 mainly due to the implementation of wage increment provisions of collective bargaining agreements. Performers' fees, authors', composers' and other rights rose by \$1,783,000 as a result of additional programming and a 17% increase in fees to performers on the French network. Other increases were attributed to extended television network broadcasting hours, the addition of five rebroadcasting stations, increase in costs of the rental of film rights and in payments to affiliated private stations in respect of network programs and station time rates. The improvement in income was almost entirely due to television advertising.

During the year under review the Corporation discovered a defalcation of \$40,648 perpetrated by means of falsification of payments for professional services. Of this

amount, \$37,067 was recovered from the bonding company and \$3,581 from amounts due to the absconding employee. Improvements in the system of internal financial control designed to avoid recurrence of this type of defalcation have since been introduced.

The statement of operations segregates cost of production and distribution under the headings of "Programs without Advertising, \$64,633,000" and "Programs with Advertising, \$33,216,000". The former classification comprises two types of programs, those which are available for advertising but which have not attracted advertising revenue, and programs of a public service nature which, because of Corporation policy, are not available to advertisers. A segregation of the total cost of "Programs without Advertising" under these headings follows:

	Programs Available for Advertising	News and Public Service Programs	Total
Cost of programs	\$24,653,000	\$29,137,000	\$53,790,000
Network distribution	3,507,000	4,150,000	7,657,000
Station transmission	1,459,000	1,727,000	3,186,000
	<u>\$29,619,000</u>	<u>\$35,014,000</u>	<u>\$64,633,000</u>

The total cost of production and distribution of programs with advertising potential was therefore \$62,835,000 comprised of the \$29,619,000 shown above and \$33,216,000, the cost of production and distribution of programs with advertising. As gross advertising revenue only amounted to \$32,392,000, the difference of \$30,443,000, together with the costs of operational supervision and services and of selling and general administration, was required to be met from the parliamentary grant.

The Public Accounts Committee, in its examination into the accounts of the Corporation for the years ended March 31, 1962 and 1963, expressed the opinion that the Corporation's statement of operations would be materially improved by a redefinition of the existing categories, or by the addition of further categories, so as to show separately the cost of programs without advertising but which were available for sale and by showing separately on the statement the gross profit or loss derived from the sale of advertising from all sources during each fiscal year. Accordingly, in its Fifth Report 1964, the Committee recommended that:

"the President and the Board of Directors realign the format of the annual statement of operations of the Corporation in a manner designed to show separately in future for each fiscal year (1) the cost of programs produced without advertising but which were available for sale, and (2) the gross profit or loss derived from the sale of advertising from all sources".

and reported that the President had informed the Committee that such a realignment of the statement of operations could be made. The Committee expressed the hope that this could be made effective on a comparative basis commencing with the 1964-65 fiscal year (see Appendix 1, item 18).

AUDITOR GENERAL'S REPORT

The following inventory balances at March 31, 1964 are compared with the corresponding balances at March 31, 1963:

	March 31	
	1964	1963
Programs completed and in process of production	\$ 4,792,000	\$ 3,589,000
Film and script rights	1,771,000	1,877,000
Engineering and production supplies	1,652,000	1,646,000
	<u>\$ 8,215,000</u>	<u>\$ 7,112,000</u>

As in previous years, the bulk of the program inventory continued to be represented by programs recorded in advance of broadcast on videotape and on film for the English and French networks. An expansion of the supply sources during the year made it possible for the Corporation to reduce the amount invested in prepaid film rights in the Quebec region to \$972,000 or 61% of the total amount so invested at March 31, 1964 compared with \$1,363,000 or 80% of the total so invested at the close of the preceding year.

The inventory balances shown in the above tabulation are after giving effect to the following write-offs:

Programs completed and in process of production abandoned and cancelled because of technical deficiencies, scheduling difficulties, pre-emptions, etc.	\$ 129,000
Film rights expired—films not telecast because of unsuitability of program content, technical deficiencies, pre-emptions, etc.	56,000
Script rights expired or unsuitable	44,000
Engineering and production supplies unusable and obsolete	3,000
	<u>\$ 232,000</u>

The comparable write-offs in the previous year totalled \$255,000.

The capital requirements of the Corporation, amounting to \$7,383,000, were provided to the extent of \$7,333,000 by parliamentary appropriation and to the extent of \$50,000 from proceeds of sale of assets.

Certain preliminary expenses due to changes in design and other costs incurred by reason of a government-directed slow-down during construction of the head office building, estimated as having cost \$97,850, were written off by a charge to Proprietor's Equity Account during the year.

During the last five years, \$5,771,000 was spent in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. A note to the financial statements at March 31, 1964 sets out that the present estimate of the future cost of consolidation of facilities for the Corporation is \$128,080,000, of which, subject to the provision of funds by Parliament for the purpose, approximately \$3,442,000 will be expended during the year ending March 31, 1965 and \$124,638,000 during subsequent years.

In our reports to management for the last two years we have referred to the need for a physical inventory of all capital assets of the Corporation with a view to establishing and maintaining improved physical and accounting control over these assets. A physical count of all capital assets was made during the 1962-63 fiscal year but it was subsequently found necessary to have an inventory recorded in greater detail and to show the exact location of each component in order to maintain proper control over the assets. This undertaking was in process at the year-end and the reconciliation of the assets with the accounting records remained to be completed. The Corporation does not anticipate that the assignment will be completed before March 31, 1966.

In our previous Reports we have referred to the recommendation contained in our report to the Board of Directors for the year ended March 31, 1960 that a useful purpose might be served by having the Corporation's organizational structure in terms of its present size, complexity and cost made the subject of a study by independent management consultants working in co-operation with the Audit Office. A study along these lines was made by the Royal Commission on Government Organization and the results were contained in Report 19, Volume 4 of its Reports released on April 17, 1963. Although the Commission had not undertaken a detailed investigation and appraisal, its Report proposed guidelines and criteria which, subject to government decisions on policy, should permit the Corporation to adjust its internal organization and operations to management and performance needs.

The Public Accounts Committee also questioned the officers of the Corporation on the extent to which the recommendations of the Auditor General and the Royal Commission on Government Organization had been implemented. As indicated in Appendix 1, items 20 and 21, recommendations and observations made in the Committee's Fifth Report 1964 to the House of Commons included the following:

"Authority of Comptroller over Regional Accountants

The Committee was disturbed to learn that the authority of the Comptroller over the accounting staffs at the regional centres of the Corporation across Canada is not clearly defined and expresses agreement with the view of the Auditor General that the regional accountants should be responsible directly to the Comptroller at head office in the interests of effective internal financial control. The Committee is of the opinion that a clear definition of this responsibility is overdue and was pleased to be advised by the President that it will receive early attention.

The Auditor General is requested to advise the Committee when this matter has been settled to his satisfaction."

"Report of the Royal Commission on Government Organization

The Committee noted that the Auditor General raised questions concerning contents of Report No. 19, Volume 4 of the report of the Royal Commission on Government Organization, which was made public on April 17, 1963. In answering members of the Committee on these points, the President stated that he did not agree with all the recommendations of the Royal Commission and explained that the Royal Commission had apparently failed to understand the nature of the problem.

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The Committee recommends that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report No. 19, and that this be done before the estimates of the Corporation are considered by the House."

138. *Canadian Commercial Corporation.* This Corporation which was established in 1946 by the Canadian Commercial Corporation Act, now R.S., c.35, provides procurement services in Canada for the governments of other countries and for international organizations. The Corporation's main customer is the United States Government. During the year under review \$218 million was expended by the Corporation on behalf of its customers as compared with \$153 million in the previous year.

The equity of the Government of Canada in the Corporation amounted to \$5,596,000 as at March 31, 1964 consisting of \$5,500,000 working capital advances and an accumulated surplus of \$96,000.

The following is a comparative summary of the operations of the Corporation for the past two years:

	Year ended March 31	
	1964	1963
Expense—		
Salaries and living expenses	\$ 440,000	\$ 381,000
Other expense	141,000	110,000
	<hr/> 581,000	<hr/> 491,000
Income—		
Purchase surcharges	145,000	127,000
Interest earned	133,000	119,000
Other income	—	9,000
	<hr/> 278,000	<hr/> 255,000
Net loss	<hr/> \$ 303,000	<hr/> \$ 236,000

In my Report for 1962 and again in my 1963 Report it was noted that the Department of Defence Production had been providing purchasing and accounting services free of charge to the Corporation. Also, reference was made to a Board of Directors' minute wherein it was noted that future operating deficits should be covered by a Department of Defence Production appropriation. These matters have been resolved by the implementation during the fiscal year of the recommendation of the Royal Commission on Government Organization to the effect that the legal entity of the Corporation should be retained but that its management and staff should be provided by the Department of Defence Production.

139. *Canadian Corporation for the 1967 World Exhibition.* This Corporation was established under the Canadian World Exhibition Corporation Act, 1962-63, c.12. The name of the Corporation was changed in 1963 under the Canadian Corporation for the 1967 World Exhibition Act, 1963, c.32. The Corporation was established for the purposes of planning, organizing, holding and administering the International and Universal Exhibition to be held in Montreal in 1967 in connection with the celebration of the Centennial of Confederation in Canada. An Act respecting the Canadian World Exhibition was passed by the Province of Quebec Legislative Assembly on April 2, 1963, providing authority for the sharing in the financing of the Corporation by the Province of Quebec and the City of Montreal.

The Corporation consists of a Commissioner General, a Deputy Commissioner General and 14 other directors appointed by the Governor in Council, seven of whom are appointed on the recommendation of the Lieutenant-Governor in Council.

Section 17 of the Act requires that the accounts and financial transactions of the Corporation shall be audited by the Auditor General of Canada and the Quebec Provincial Auditor, and the auditors are required to report annually in a manner similar to that required by the Financial Administration Act in respect of other Crown corporations.

An agreement was concluded on January 18, 1963 between Canada, the Province of Quebec and the City of Montreal, confirming their acceptance of the legislation establishing and governing the Corporation, and outlining certain "settlements" between the Corporation and the three governments to be concluded after the closing of the Exhibition. As the latter would appear to be couched in general terms, it has been suggested to the management that, in order to avoid complications in the ultimate interpretation of the relevant clauses, the Corporation's legal officers should discuss these matters with the federal and provincial government departments concerned with a view to having the exact intent of the agreement more precisely stated.

Under section 10 of the federal Act, the Corporation was required not later than one year after the coming into force of the Act to "submit for the approval of the Governor in Council and the Lieutenant-Governor in Council, its overall plan for the Exhibition, setting forth the various undertakings and projects proposed by the Corporation in connection with the planning, organizing, holding and administering of the Exhibition, the estimated cost of each such undertaking or project and an estimate of the total capital costs and operating costs of the Corporation in respect of the Exhibition".

Any material changes in the plan, including estimates of costs, are to be submitted to the Governor in Council and the Lieutenant-Governor in Council for approval, and the Corporation may not initiate any undertaking or project, expend any money thereon or incur any liability therefor unless that undertaking or project is included in the approved overall plan or modification thereof.

The overall plan was submitted on December 20, 1963 and was approved by the Governor in Council on February 13, 1964 (Order in Council P.C. 1964-252) and

by the Lieutenant-Governor in Council on February 12, 1964 (Order in Council No. 299). The cost summary included in the plan shows an estimated net cost to the Corporation of \$47,534,000, made up as follows:

Construction costs		\$ 110,931,000
Operating and administration costs		56,216,000
		<hr/>
		167,147,000
Deduct:		
Revenues	\$ 75,870,000	
Salvage	7,269,000	
Permanent assets	36,474,000	
	<hr/>	119,613,000
		<hr/>
Net cost		\$ 47,534,000
		<hr/>

Under the terms of the above-mentioned agreement between the three governments, the above net cost is to be borne by Canada, the Province of Quebec and the City of Montreal in the proportions of 50%, 37½% and 12½%, respectively.

Under the authority of the federal and provincial legislation the activities of the Corporation are financed by funds provided by Canada, the Province of Quebec and the City of Montreal, and the aggregate of the grants made by the three governments must not exceed \$20 million, \$15 million, and \$5 million, respectively.

In order to obtain additional funds required for its purposes, section 12 of the federal Act provides that the Corporation may, with the approval of the Minister of Finance and the Minister of Finance of Quebec, borrow money, on the security of notes, bonds or debentures of the Corporation. Such notes, bonds or debentures are to be issued at such rates of interest and subject to such other terms and conditions as may be approved by the Governor in Council and the Lieutenant-Governor in Council, and are to be jointly guaranteed by Canada and Quebec. In addition, subsection (5) of section 12 provides that the Corporation may borrow money from the Minister of Finance for temporary purposes and the Minister of Finance, with the approval of the Governor in Council and subject to such terms and conditions as the Governor in Council may prescribe, may lend money to the Corporation for such purposes out of the Consolidated Revenue Fund, but the aggregate of all amounts loaned to the Corporation under this subsection and outstanding at any time shall not exceed \$1 million.

In view of the fact that the Corporation does not expect to earn any appreciable income until the year 1967 when the Exhibition takes place, a statement of operations was prepared for the period December 20, 1962 (date of inception of the Corporation) to December 31, 1963 showing detailed operating expenditures made from the grants received during the period from the three governmental sources. Capital expenditures represented by fixed assets and prepaid development costs are shown on the Corporation's balance sheet, the total thereof representing the proprietorship equity of the three governmental contributors at December 31, 1963.

Section 15 of the Canadian Corporation for the 1967 World Exhibition Act requires, under subsection (1), that the Corporation submit an operating budget and a capital budget annually to the Minister designated to act as the Minister for the Exhibition and to the Minister of Industry and Commerce for the Government of the Province of Quebec for their approval and for the approval of the Minister of Finance and the Minister of Finance of Quebec, and the capital budget so approved shall be laid by the first-mentioned Minister before Parliament.

Pursuant to this provision, an initial operating budget for 1963 totalling \$1,338,034 was prepared and submitted to the appropriate Ministers in April 1963 and was approved in September 1963. A revised operating budget in the amount of \$1,295,000 for 1963 was approved by the Minister for the Exhibition and the Minister of Finance on January 21, 1964, and later by the Minister of Industry and Commerce for the Government of the Province of Quebec.

The accounts of the Corporation for the period disclosed that the total expenditures exceeded this budget by \$142,577 as follows:

	Funds Advanced for Budget	Expenditures by Corporation	Excess Expenditures
Canada	\$ 647,500	\$ 718,789	\$ 71,289
Province of Quebec	485,625	539,091	53,466
City of Montreal	161,875	179,697	17,822
	<u>\$ 1,295,000</u>	<u>\$ 1,437,577</u>	<u>\$ 142,577</u>

The expenditures made in excess of the budget, shown above in the amount of \$142,577, were caused by the engagement of staff and the incurring of other operating costs in excess of those authorized in the 1963 revised budget.

Section 8 of the Canadian Corporation for the 1967 World Exhibition Act provides under subsection (2) that the Corporation shall submit a plan of organization to the Governor in Council and the Lieutenant-Governor in Council for approval, showing the number of officers and employees estimated to be required for the proper conduct of the business of the Corporation, the proposed classes of positions and rates of compensation for each class and that the Corporation shall not employ an officer or employee except in accordance with the plan of organization so approved.

A plan of organization as required by the above-mentioned statute was prepared and submitted to the appropriate Ministers in April 1963. This plan, which was approved by the Governor in Council and the Lieutenant-Governor in Council, provided for a total establishment for 1963 of 79 positions.

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The examination of the records of the Corporation disclosed that the number of personnel engaged during 1963 exceeded the above authorization by 57 persons. Furthermore, the salaries paid during the period were, in 80 instances, either in excess of the salary ranges authorized for the same or comparable positions, or applied to positions not provided for in the approved plan of organization.

On March 23, 1964 a new plan of organization was approved by the Governor in Council under Order in Council P.C. 1964-433, which provided that the total number of staff shall not exceed 400 during the year 1964. The salary scale approved for these positions in certain of the categories provides for higher salaries than the scale approved for the year 1963. The new plan of organization was also approved by the Lieutenant-Governor in Council on March 24, 1964 under Order in Council No. 580 which, in addition, approved retroactively the size of the staff and the salaries paid during the period ended December 31, 1963.

The following is a summary of the \$1,438,000 expenditures of the Corporation during the period to December 31, 1963:

	Period from December 20, 1962 to December 31, 1963
Operating expenses—	
Salaries and employee benefits	\$ 373,000
Travel and representation	96,000
Postage, telephone and telegraph	28,000
Advertising and publicity	87,000
Office rent	57,000
Office stationery and expenses	32,000
Administrative services including fees to management consultants	39,000
Recruitment and relocation of personnel	16,000
Theme and symbol development	24,000
Fees for special economic studies	65,000
Fees for minimum time and cost scheduling	42,000
Legal fees	13,000
Miscellaneous	34,000
	<hr/> 906,000
Bank interest earned	3,000
	<hr/> 903,000
Capital and prepaid development costs—	
Capital costs	246,000
Prepaid development costs	289,000
	<hr/> 535,000
Total	<hr/> \$ 1,438,000

Since a portion of the total expenditures incurred during the period included the cost of furniture and equipment acquired for the Corporation's headquarters, and the cost of leasehold improvements, as well as certain prepayments which it was felt were more properly chargeable in whole or in part against future accounting periods, particularly those in which revenues are likely to accrue, these items totalling \$476,000 (\$535,000 shown above, less provision of \$59,000 for depreciation and amortization included in the operating expenses in the Corporation's financial statements for the period) have been classed as "capital and prepaid development costs", and have been shown as such in the Corporation's balance sheet. The total of \$476,000 represents the proprietorship equity of the three governments at December 31, 1963.

In the course of this initial examination of the Corporation's accounts and financial statements, the attention of the management was drawn to certain transactions and practices originating in the closing months of the year 1963 which, in the opinion of the joint auditors, were inconsistent with those usually followed by Crown corporations and government agencies facing similar problems. They were discussed in detail with both the Commissioner General and the Deputy Commissioner General who explained why they considered the expenditures involved to be necessary and particularly so at this important stage in the Corporation's organization and development. In accepting these explanations at that time, the joint auditors advised the management of their intention to defer any further comment on the transactions and practices in question until the completion of the examination of the Corporation's accounts for the succeeding year.

During the course of the examination, two instances were noted where limited value was received by the Corporation for expenditures incurred:

1. As from July 1, 1963 arrangements were made to sub-lease a portion of the Corporation's floor space in the Royal Bank Building in Montreal to a firm of industrial design and interior planning consultants, at the same rent per square foot paid by the Corporation to the Place Ville Marie Corporation, and up to the date of termination of the Corporation's lease, i.e., November 15, 1965. No lease contract was drawn up but these arrangements were confirmed by correspondence between the Corporation and the sub-lessee. Towards the end of 1963, the Corporation being short of office space, agreement was reached with the consultants for them to move to another floor in the same building. The total of the expenses incurred by the Corporation in 1963 and 1964 in connection with the move amounted to \$19,000 of which amount the Corporation has recovered \$11,000 from the sub-lessee in 1964.
2. In July 1963 the Board of Directors authorized the engagement of a professional engineer, to carry out the research necessary and to prepare a Critical Path Diagram for the more efficient carrying out of the Corporation's objects and purposes, at a fee of \$28,000. A contract was drawn up but was never executed by the two parties, and the arrangement was merely confirmed in a letter to the engineer dated August 6, 1963, signed by the former Director of Operations of the Corporation. The above amount of \$28,000, as well as travelling expenses and translation costs totalling \$5,005, was paid by the Corporation in 1963.

From subsequent correspondence and memoranda on file, we gathered that the work carried out and the report thereon submitted by the engineer in question failed to meet the expectations and requirements of the Corporation. It was not possible to make a precise evaluation of the unproductive portion of these costs.

The services of the professional engineer were dispensed with by the Corporation and the continuation of the work involved in the preparation and maintenance of the Critical Path Diagram was entrusted to a well-known firm of consultants in this particular field.

140. *Canadian National (West Indies) Steamships, Limited.* The active operations of this company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests and the winding-up of the company's affairs is now under consideration.

The Crown's equity in the company at December 31, 1963 amounted to \$495,000, represented by cash, \$39,000, and balance due under agreement of sale of vessels, \$470,000, less liability in respect of unclaimed matured bonds, \$14,000.

The balance due under agreement of sale of vessels represented the final instalment, including interest, due August 19, 1963 under terms of letter of credit confirmed by the Bank of America, payment of which was prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963.

141. *Canadian Overseas Telecommunication Corporation.* The objects of this Corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, now R.S., c.42, as amended, are: to establish, maintain and operate external telecommunication services for the conduct of public communications, to carry on the business of public communications, to improve the efficiency of telecommunication services generally, and to co-ordinate Canada's external telecommunication services with those of other nations. To these ends the Corporation, in 1950, acquired the Canadian external telecommunication facilities of Cable and Wireless Limited and Canadian Marconi Company Limited which provided cable and radio-telegraph circuits between Canada and Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services to Britain and the West Indies. The most recent of many major subsequent developments was the completion, in December 1963, of the Commonwealth Pacific Cable System, a multi-channel, multi-purpose cable between Canada and New Zealand and Australia. An extension of this service to South-East Asia is expected to be in service in 1966.

The equity of the Crown in the Corporation amounted to \$65,779,000 at March 31, 1964, an increase of \$8,832,000 over the equity at the end of the previous year, and consisted of advances of \$55,462,000 for capital purposes and a surplus of \$10,317,000.

The capital requirements of the Corporation are financed in part by loans provided by parliamentary appropriations, with the balance provided out of accumulated earnings.

During the year the Crown advanced \$7,820,000 for capital purposes, \$2,000,000 of which was advanced late in March and was on hand at the year-end. Capital additions amounted to \$6,086,000. At March 31, 1964 the estimated cost of completing approved capital projects was \$28,600,000, of which \$10,400,000 related to the year ending March 31, 1965.

During the year surplus was increased by \$2,692,000 of which \$2,386,000 represented the net profit for the year and \$306,000 a net adjustment of the amount recoverable from the Commonwealth Network for the years ended March 31, 1957 to 1963, inclusive.

The following is a summary of the income and expense of the Corporation for the last two years:

	Year ended March 31	
	1964	1963
Income—		
Telephone, telegraph, telex, circuit rentals, etc.	\$14,278,000	\$12,321,000
Expense—		
Salaries, wages and employee benefits	3,105,000	2,591,000
Depreciation	2,855,000	2,376,000
Rental of circuits	1,996,000	1,377,000
Interest	1,687,000	1,339,000
Operation, maintenance and repairs—buildings, plant and equipment	1,126,000	1,051,000
Other	575,000	517,000
	11,344,000	9,251,000
Less: Estimated amount recoverable from Commonwealth Network	1,817,000	1,025,000
	9,527,000	8,226,000
	4,751,000	4,095,000
Cost of additional pension benefits	—	116,000
Profit before income tax	4,751,000	3,979,000
Provision for income tax	2,365,000	1,971,000
Net profit	\$ 2,386,000	\$ 2,008,000

Income increased by \$1,957,000 or approximately 16% over that of the previous year, compared with an increase of 30% recorded last year. Revenue from all major services provided by the Corporation was greater than in the previous year, although the rate of increase in circuit rentals, the service which produces the major portion of the Corporation's revenue, was less than in recent years. Expenses also increased by 16% over those of the previous year due to the increased activities of the Corporation.

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142. *Canadian Patents and Development Limited*. Section 17 of the Research Council Act, R.S., c. 239, provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the company, which is located at Ottawa, are available to government departments, publicly supported institutions and universities.

The following summary shows the results of the company's operations for the year ended March 31, 1964 compared with the preceding year:

	Year ended March 31	
	1964	1963
Income—		
Royalties, licensing fees, etc.	\$ 376,000	\$ 554,000
Less: Costs of licensing rights and related technical assistance, etc. ..	25,000	63,000
	351,000	491,000
Other income	41,000	24,000
	392,000	515,000
Expense—		
Promotion and development	103,000	7,000
Services provided by National Research Council	42,000	36,000
Patent attorneys' fees and other patent expenses	38,000	55,000
Salaries	29,000	29,000
Awards to inventors	15,000	19,000
Other expenses	16,000	3,000
	243,000	149,000
Net profit	\$ 149,000	\$ 366,000

The decreased income from royalties, licensing fees, etc., is largely attributable to one licence. The income from two other licences was considerably less than in the preceding year but in these instances there was a corresponding reduction in the cost of licensing rights and related technical assistance, etc.

The increased cost of promotion and development resulted from the policy, referred to in last year's Report, of placing more emphasis on the development of products and techniques that the company was in a position to lease on a royalty basis to private

industry. In addition to the substantial increase in expense incurred in connection with the program, there were also outstanding commitments of approximately \$69,000 at March 31, 1964. The reduction in the cost of patent attorneys' fees and other patent expenses was largely due to the fact that there was no expense in the year under review comparable to that incurred in the preceding year for the filing of patent applications on a device in several countries.

The net profit of \$149,000 resulted in a corresponding increase in the Crown's equity in the company which, at March 31, 1964, was \$969,000, comprising capital stock of \$296,000 and surplus of \$673,000.

143. *Centennial Commission.* The Centennial Commission, formerly the National Centennial Administration, was established by the Centennial of Canadian Confederation Act, 1960-61, c. 60, as amended (1963, c. 36) to promote interest in, and to plan and implement programs relating to, the Centennial of Confederation in Canada. The Commission, with its head office in Ottawa, consists of a Commissioner, an Associate Commissioner and twelve directors, all appointed by the Governor in Council.

Section 10 of the Act directs that there shall be a special account in the Consolidated Revenue Fund, to be known as the Centennial of Confederation Fund, to which shall be credited the amounts appropriated by Parliament for the purposes of the Fund. The Minister of Finance may, on the recommendation of the Secretary of State of Canada who is the Minister designated by Order in Council P.C. 1964-156 of February 3, 1964 as the appropriate Minister under the Centennial of Canadian Confederation Act and the Financial Administration Act), out of the Consolidated Revenue Fund pay to the Commission "such amounts as are from time to time required for the purpose of making grants to any province, or to any organization the objects of which are similar to the objects of the Commission, for the observance of the Centennial of Confederation in Canada". The amounts paid by the Minister of Finance to the Commission are to be charged to the Fund but a payment may not exceed the balance standing to the credit of the Fund.

The purposes for which grants may be made out of the Centennial of Confederation Fund, as defined by the Centennial of Canadian Confederation Act, have been restricted by the Appropriation Acts which provided for payments to the Fund. Privy Council Order in Council P.C. 1962-100, Special Appropriation Act, 1963 and Appropriation Act No. 5, 1963, provided for the payments of \$1,000,000 in 1962-63 and \$2,000,000 in 1963-64 respectively, to the Centennial of Confederation Fund "to enable grants to be made to the Provinces for cultural projects of a lasting nature (the total of such grants not to exceed \$1 per capita of population per Province)". No grants having been made out of the Fund, the balance at March 31, 1964 was \$3,000,000.

All other expenditures are made from moneys appropriated by Parliament for the purpose. The following is a summary of the expenses of the Commission for the year ended March 31, 1964:

Grants, programs and projects		\$ 1,495,000
Administrative expense—		
Salaries and employee benefits	\$ 272,000	
Professional and special services	45,000	
Travel	34,000	
Accommodation	25,000	
Stationery, supplies and office equipment	16,000	
Other	27,000	
		<u>419,000</u>
		<u>\$ 1,914,000</u>

Of the total expense of \$1,914,000, an amount of \$1,882,000 was provided by parliamentary appropriation and \$32,000 was the estimated value of accommodation and accounting services provided without charge by government departments.

Payments on account of grants, programs and projects were made pursuant to section 9 of the Act which provides that the Commission may, subject to the approval of the Governor in Council for expenditures greater than \$25,000, undertake programs and projects related to the observance of the Centennial of Confederation and engage in joint programs with, or make grants to, any province or any organization with objects similar to those of the Commission for the observance of the Centennial of Confederation. The largest of these was \$1,306,000 paid to the Fathers of Confederation Memorial Citizen Foundation representing the Federal Government's 1963-64 contribution toward the construction of the Fathers of Confederation Memorial Building at Charlottetown, P.E.I. The Centennial Commission and various provincial governments are sharing the cost of this building equally, with the federal contribution being limited to \$2,800,000. To March 31, 1964 the Commission's contributions to this project totalled \$1,556,000.

144. *Cornwall International Bridge Company Limited.* The shares of this company are owned equally by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation).

The company has been in process of winding up since July 3, 1962, when it ceased to operate the toll bridge system across the St. Lawrence River between Cornwall, Ontario, and Rooseveltown, New York. The system is now operated by The Seaway International Bridge Corporation, Ltd., a subsidiary of The St. Lawrence Seaway Authority.

The equity of the Seaway entities in the company at September 30, 1963 consisted of capital stock of \$50,000 less a deficit of \$6,000.

Since the close of its financial year ended September 30, 1963, the company has transferred free of charge to the Town of Massena, New York, a bridge over the Racquette River, a road serving the bridge, and land for the road allowance. The remaining parcels of land owned by the company have been offered for sale.

145. *Crown Assets Disposal Corporation.* In 1944 the Surplus Crown Assets Act established the War Assets Corporation which, by a 1949 amendment to the Act, became the Crown Assets Disposal Corporation. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all government departments and most of the Crown corporations and agencies. Also, the Corporation has entered into agreements with Britain and the United States whereby it disposes of surplus Canadian property of these countries. The head office of the Corporation is in Ottawa, with sales offices in a number of Canadian cities.

As has been the case for a number of years, the Corporation was authorized for the 1963-64 financial year to retain 4% of the net proceeds of sales of lands and buildings and of the interest earned on long-term sales agreements and 10% of the net proceeds of all other sales to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year ended March 31, 1964, together with comparable figures for the preceding year, follows:

	Year ended March 31	
	1964	1963
Income—		
Percentage of net proceeds of sales made and of other income earned, etc.	\$ 832,000	\$ 755,000
Expense—		
Salaries	453,000	450,000
Employees' welfare benefits	43,000	44,000
Rent	55,000	53,000
Telephone, telegrams and postage	23,000	27,000
Printing, stationery and office supplies	24,000	22,000
Travel	15,000	14,000
Other expenses	11,000	10,000
	624,000	620,000
Excess of income over expense	\$ 208,000	\$ 135,000

The \$77,000 increase in income was due to a larger volume of sales, from the net proceeds of which the Corporation retains the authorized percentages referred to above.

Pursuant to section 81 of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959, and from time to time

thereafter but at intervals of not longer than six months, all of its surplus in excess of \$100,000. The \$208,000 excess of income over expense for the year under review was, in consequence, paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown in the Corporation's agency account at March 31, 1964 was \$5,197,000, compared with \$5,884,000 at the end of the preceding year, and was largely represented by amounts totalling \$4,922,000 receivable under long-term interest-bearing sales agreements.

The transactions in the agency account during the year ended March 31, 1964, compared with the preceding year, are summarized as follows:

	Year ended March 31	
	1964	1963
Proceeds from sales, etc.		
Government of Canada	\$10,194,000	\$ 7,790,000
Other principals	822,000	823,000
Interest	223,000	268,000
	<hr/> 11,239,000	<hr/> 8,881,000
Less: Direct costs relating to sales	42,000	29,000
	<hr/> 11,197,000	<hr/> 8,852,000
Deduct:		
Percentage of net proceeds from sales, etc. retained by the Corporation	832,000	755,000
Remittances to Receiver General of Canada	10,314,000	8,715,000
Other remittances	642,000	745,000
	<hr/> 11,788,000	<hr/> 10,215,000
Increase (decrease) in equity:		
Government of Canada	(687,000)	(1,358,000)
Others	96,000	(5,000)
	<hr/> \$(591,000)	<hr/> \$(1,363,000)

The greater part of the increase in sales on behalf of the Government of Canada is accounted for by the sale during the year of the Toronto Armouries to the Municipality of Metropolitan Toronto for \$2 million.

146. *Defence Construction (1951) Limited*. This Crown-owned agency was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, now R.S., c. 62. The company is responsible for awarding and supervising contracts for defence construction projects. Funds to finance the projects are provided by the departments concerned, or by the United States Government for projects undertaken on its behalf. Expenditures on defence construction projects which

were approved by the company for payment by the Department of National Defence and by the United States Government decreased from \$72 million in 1962-63 to \$29 million in 1963-64. The decrease was due to the completion of projects awarded in prior years and a decrease in the value of awards made in 1962-63.

Funds to cover the company's operating expenses are provided annually by means of a Department of Defence Production appropriation. The following is a comparative summary of the operating results for the past two years:

	Year ended March 31	
	1964	1963
Expense—		
Salaries and living allowances	\$ 1,949,000	\$ 2,575,000
Travel and removal	163,000	246,000
Employees' welfare benefits	140,000	181,000
Other expenses	280,000	265,000
	<u>2,532,000</u>	<u>3,267,000</u>
Income—		
Reimbursement for engineering and administrative services	21,000	45,000
Other income	1,000	1,000
	<u>22,000</u>	<u>46,000</u>
Net expense	<u>\$ 2,510,000</u>	<u>\$ 3,221,000</u>

A reduction in staff during the year accounted for the decrease in expense.

147. *Eldorado Aviation Limited.* This company, incorporated in 1953 under the Companies Act, is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Operating from headquarters in Edmonton, it provides air transportation services on behalf of the parent company and Northern Transportation Company Limited, another subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1963 amounted to \$256,000 comprising capital stock of \$28,000, surplus of \$128,000 and reserve for uninsured losses of \$100,000. This reserve was established during the year by the transfer of \$100,000 from surplus to segregate an amount which, in the opinion of management, was sufficient to provide for potential losses due to accidents to aircraft not covered by commercial insurance, particularly in view of the company's decision in the previous year to increase the deductible portion of aircraft insurance coverage from \$5,000 to \$25,000.

The following is a comparative summary of the net expenses of the company for its last two financial years:

	Year ended December 31	
	1963	1962
Salaries, wages and contributions to employees' pension plan	\$ 187,000	\$ 251,000
Repairs	167,000	81,000
Supplies	153,000	134,000
Depreciation	49,000	59,000
Hangar expense	44,000	32,000
Insurance	35,000	50,000
Other	41,000	32,000
Total expenses	676,000	639,000
Less: Miscellaneous income	5,000	30,000
Net expenses	\$ 671,000	\$ 609,000

The net expenses for 1963 were recovered from Eldorado Mining and Refining Limited to the extent of \$533,000 and from Northern Transportation Company Limited to the extent of \$138,000.

The decrease of \$64,000 in salaries, wages and contributions to employees' pension plan was largely due to mechanics' wages totalling \$20,000 expended in reconditioning a recently-acquired used DC-3 aircraft being charged to its capital cost, and to there being no counterpart to the payment of the final annual instalment of \$40,000 made in 1962 to the employees' pension plan covering the company's share of the cost of increased pension benefits.

The increase in repair expenses of \$86,000 included \$57,000 expended to date on the overhaul of a DC-4 aircraft and costs of \$20,000 incurred in repairing a Bell helicopter damaged in an accident.

148. *Eldorado Mining and Refining Limited.* This company was incorporated in 1945 under the Companies Act, 1934, following expropriation by the Government of Canada in 1944 of the shares of a privately-owned company incorporated in 1927. The head office of the company is in Ottawa, the Beaverlodge mine is near Uranium City, Saskatchewan, and the refinery and administrative offices are in Port Hope, Ontario. The principal functions of the company are to produce, refine and sell uranium and allied products.

The equity of the Crown in the company at December 31, 1963 amounted to \$51,051,000, consisting of capital stock of \$6,586,000 and surplus of \$44,465,000. Dividends of \$2,000,000 were paid to the Receiver General during the year, compared with \$3,000,000 paid in the preceding year.

In 1962 the company contracted to sell to the United Kingdom Atomic Energy Authority 24,000,000 pounds of U308 in concentrates between the years 1962 and 1971. Under parallel agreements, the company contracted to purchase 20,917,000 pounds of U308 from six producers. The balance of 3,083,000 pounds is to be supplied from the company's own mine. The contract provides for the deferment of payment for certain deliveries until the later years of the contract period. The amounts of about \$21,000,000

thus deferred at December 31, 1963 were expected to reach a maximum of almost \$32,000,000 in 1965 and to decline thereafter until fully paid in 1973.

The concentrates being procured under the aforementioned and certain other contracts are purchased in some cases at unit prices higher and in other cases lower than the prices at which the concentrates are to be sold to the United States and United Kingdom governments; however, all purchase costs will be recovered before the contracts are completed. Charges are being applied against the contract revenue for the company's services in administering and financing the ore procurement program. At December 31, 1963 the excess of costs and expenses over sales of concentrates procured from other producers amounted to \$3,000,000, of which \$1,200,000 was incurred in the year under review. All such excess costs and expenses will be offset in subsequent periods when deliveries will be made at prices exceeding the costs of acquisition.

During 1963 the Governor in Council granted authority for the entry into contracts between Her Majesty the Queen in right of Canada, represented by Eldorado Mining and Refining Limited, and certain Canadian uranium producers for the purchase by Her Majesty of uranium-bearing concentrates. At December 31, 1963 the company was the custodian of uranium concentrates thus acquired at a total cost of \$6,342,000. Funds for the acquisition of these concentrates were provided by Department of Trade and Commerce Vote L63c, Appropriation Act No. 5, 1963 and accordingly their cost was not included in the accounts of the company (see paragraph 97).

The following is a summary of income and expense for the financial year 1963, in comparison with the preceding year:

	Year ended December 31	
	1963	1962
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	\$24,281,000	\$26,695,000
Expense—		
Mining, milling, refining and other expenses	11,873,000	12,160,000
Depreciation	4,162,000	3,952,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer	3,468,000	3,234,000
Amortization of pre-production, mine development and other deferred expenditures	807,000	836,000
Scientific research	769,000	351,000
	21,079,000	20,533,000
Net income from operations	3,202,000	6,162,000
Income arising from the financing of ore procurement program	1,255,000	264,000
Interest and other non-operating income (net)	1,226,000	1,384,000
	5,683,000	7,810,000
Provision for income tax	2,900,000	3,600,000
Net income	\$ 2,783,000	\$ 4,210,000

The downward trend in sales volume and the adverse effect of the deferment of deliveries under the terms of certain contracts has resulted in a decline of \$2,414,000 in sales revenue.

Included in the mining, milling, refining and other expenses is \$427,000 representing the sum of the write-off of \$224,000 due to a revaluation of uranium and uranium products inventory at the Port Hope refinery to current market values and the write-off of obsolete and slow-moving stores at Beaverlodge in the amount of \$203,000.

In 1960 the company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. This cost is being amortized on a pro rata basis against the total production remaining to be supplied from the Beaverlodge mine. After amortizing \$3,468,000 during the year, a balance of \$3,121,000 at the year-end remained to be written off.

Under the provisions of the contract for the delivery of 24,000,000 pounds of uranium concentrates to the United Kingdom Atomic Energy Authority, the basic selling price is \$5.37 per pound and the average cost of procurement is \$4.95½. Thus there is an average excess of selling price over cost of 41½ cents per pound to cover costs of administering the contract and financing deferred payments. Deliveries during 1963 were 3,146,274 pounds resulting in an excess of selling price over average cost of \$1,306,000. After allowance for administrative costs of \$67,000 and a special credit of \$16,000 obtained under one of the contracts, a balance of \$1,255,000 remained as income arising from the financing of this portion of the ore procurement program.

149. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c.105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation, which has its head office in Ottawa and branches in Montreal and Toronto, is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, it may seek the approval of the Governor in Council, pursuant to section 21 of the Act, to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. A 1959 amendment to the Act introduced section 21A under which the Corporation may, with the authority of the Governor in Council, provide financing for long term export sales of capital goods with funds available out of the Consolidated Revenue Fund.

The Crown's equity in the Corporation at December 31, 1963 was \$57,291,000 consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, earned surplus of \$3,254,000 and an underwriting reserve of \$5,000,000, together with advances and accrued interest totalling \$39,037,000 in respect of long term financing of sales agreements under section 21A of the Act. The Corporation held Government of Canada bonds having a par value of \$18,900,000.

Export sales insured by the Corporation on its own account during 1963 totalled \$100,000,000 on which premiums of \$673,000 were earned. Export sales insured under

section 21 of the Act totalled \$46,000,000 and premiums amounted to \$513,000 of which \$385,000 was remitted to the Receiver General and \$128,000 was retained by the Corporation in respect of expenses and overhead, in accordance with a basis authorized by the Minister of Trade and Commerce. At December 31, 1963 the liability of the Corporation under contracts of insurance issued and outstanding totalled \$293,314,000 of which \$206,532,000 was for contracts entered into under section 21 of the Act.

At December 31, 1963, after three years of operation in the field of direct financing of long term export sales of capital goods under the authority of section 21A of the Act, the Corporation had signed agreements to finance export sales amounting to \$147,000,000 of which \$67,000,000 had been disbursed. In addition, the Corporation had agreed to finance \$39,000,000 of prospective sales and had undertaken to guarantee negotiable instruments totalling \$7,810,000 with respect to completed sales. During the year the Corporation also sold guaranteed promissory notes having a face value of \$27,000,000, which had been purchased under section 21A, to the Export Finance Corporation of Canada, Ltd. (a subsidiary of the Canadian chartered banks). The Corporation continues to be responsible for the administration of these notes, which mature within five years, and guarantees payment of principal and interest.

The following is a comparative summary of operations for the past two financial years:

	Year ended December 31	
	1963	1962
Income—		
Premiums and fees earned	\$ 1,003,000	\$ 921,000
Expense—		
Salaries and employee benefits	381,000	316,000
Rents	36,000	33,000
Stationery, printing and office expenses	29,000	16,000
Travel	25,000	21,000
Communications expense and credit reports	20,000	19,000
Other	27,000	34,000
	518,000	439,000
	485,000	482,000
Policyholders' claims—		
Recoveries	597,000	687,000
Payments	195,000	164,000
	402,000	523,000
Excess of income and net recovery on policyholders' claims over expense	887,000	1,005,000
Add: Interest on investments	774,000	719,000
	1,661,000	1,724,000
Provision for income tax	796,000	828,000
Surplus	\$ 865,000	\$ 896,000

AUDITOR GENERAL'S REPORT

The cost of additional staff for the Export Finance Division formed in 1961 and for insurance and general administration was largely responsible for the increase of \$79,000 in the Corporation's expenses during the 1963 financial year.

The following is a summary of transactions during the year in respect of claims paid to policyholders:

Type of claim	Outstanding Jan. 1, 1963	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1963
Insolvency	\$ 198,000	\$ 98,000	\$ 18,000	\$ 14,000	\$ 264,000
Default	299,000	52,000	15,000	76,000	260,000
Exchange transfer	982,000	34,000	564,000	(42,000)	494,000
Other	1,000	11,000	—	11,000	1,000
	<u>\$ 1,480,000</u>	<u>\$ 195,000</u>	<u>\$ 597,000</u>	<u>\$ 59,000</u>	<u>\$ 1,019,000</u>

Of the amount of \$1,019,000 in claim payments shown above as outstanding at December 31, 1963, the Corporation anticipates making substantial recoveries, particularly in respect of those claims, amounting to \$494,000, which were paid because of exchange transfer difficulties in the buyers' countries. The amounts to be recovered will be added to income in the years in which recoveries are effected.

150. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long term mortgage loans to farmers. The head office is in Ottawa and there are seven branches and 124 field offices throughout Canada.

During the year under review the Government of Canada paid a further \$3,000,000 into the capital of the Corporation and advanced an additional \$66,905,000 (net) by way of loans. At March 31, 1964 the equity of the Government in the Corporation amounted to \$350,377,000, comprising: capital, \$13,350,000; loans, \$325,523,000; accrued interest on loans, \$9,839,000; and reserve for losses, \$1,665,000.

During the year, 7,802 loans (6,453 in 1962-63) were disbursed to farmers to a total of \$96,316,000 (\$78,428,000 in 1962-63) and repayments amounted to \$25,426,000 (\$20,287,000 in 1962-63). Loans outstanding at the year-end, including accrued interest, amounted to \$350,357,000 compared with \$277,485,000 at the end of the previous year.

The following is a comparative summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1964	1963
Income—		
Interest earnings	\$15,120,000	\$11,806,000
Deduct: Interest on loans from the Government of Canada	13,188,000	10,200,000
	<u>1,932,000</u>	<u>1,606,000</u>
Appraisal, supervision and legal fees	521,000	500,000
	<u>2,453,000</u>	<u>2,106,000</u>

	Year ended March 31	
	1964	1963
Expense—		
Salaries and employee benefits	2,764,000	2,427,000
Travel	310,000	277,000
Office accommodation	217,000	212,000
Postage, express, telephone, and telegraph	84,000	78,000
Printing, stationery and office supplies	72,000	80,000
Rental and maintenance of office equipment	27,000	12,000
Fees and expenses of part-time appraisers	18,000	21,000
Management consultants' fees	16,000	—
Depreciation	36,000	36,000
Other	28,000	43,000
	<u>3,572,000</u>	<u>3,186,000</u>
Net operating loss carried to Reserve for Losses		\$ 1,080,000
Net operating loss, provided for by parliamentary appropriation	\$ 1,119,000	

The increase of \$386,000 in expense for the year ended March 31, 1964 resulted largely from the continued growth in lending activity and the consequent expansion of the Corporation which has resulted in an increase in staff from 183 at March 31, 1960 to 468 at March 31, 1963 and 498 at March 31, 1964.

In my report under section 87 of the Financial Administration Act, on the examination of the accounts of the Corporation for the year ended March 31, 1964, reference was made to the reduction in the Reserve for Losses during the past four years, due in part to the statutory obligation placed on the Corporation to lend money at a fixed rate, as follows:

"Section 15 of the Farm Credit Act requires the Corporation to establish a Reserve out of which may be paid 'any losses sustained by the Corporation in the conduct of its business'. The section further provides that the Corporation shall credit its net earnings each year to this Reserve until the amount of the Reserve equals the capital of the Corporation, which amounted to \$13,350,000 at March 31, 1964. In the years up to March 31, 1960, the Reserve for Losses had been built up to an amount of \$3,748,862, including \$3,486,048 accumulated by the predecessor corporation (Canadian Farm Loan Board) to March 31, 1959.

"Because the statutory lending rate of 5% on loans to farmers has not provided sufficient income to cover the interest paid on borrowings from the Government of Canada, administrative expenses and losses on loans, the Corporation has had annual losses since 1961. Losses aggregating \$2,078,299 to March 31, 1963 were charged against the Reserve for Losses. The operating loss of \$1,118,796 for the year ended March 31, 1964 was recovered from a Parliamentary appropriation (Vote 174e, Department of Agriculture) provided for that purpose and losses of \$5,223 on real estate transactions were charged to the Reserve for Losses during the year. The balance in the Reserve at the year end was \$1,665,340.

"While continuation of the policy introduced during the year of providing a Parliamentary appropriation to cover the annual operating loss of the Corporation will prevent further depletion of the Reserve by such losses, no provision has been made for the building up of the Reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act."

The amendment to the Farm Credit Act which was assented to on June 18, 1964 increased the limits on borrowing for a single farming enterprise under Part II of the Act from \$20,000 to \$40,000 and under Part III of the Act from \$27,500 to \$55,000. The interest rate of 5% per annum remains unchanged on amounts loaned by the Corporation up to the previously existing limits of \$20,000 and \$27,500, but the interest rate to be charged on moneys loaned in excess of these amounts may from time to time be prescribed by the Corporation with the approval of the Governor in Council "which rate shall be sufficient, if the whole amount of the loan were to be loaned by the Corporation at that rate, to return to the Corporation an amount equal to the cost to the Corporation of any money borrowed for the purposes of the loan and the expenses of the Corporation in respect thereof, including a reasonable reserve against loss".

On June 25, 1964 an interest rate of 6½% per annum was approved for moneys loaned under the new increased limits. Since this rate applies only to the portion of any loan in excess of \$20,000 or \$27,500, as the case may be, the operations of the Corporation will continue to result in an annual operating loss.

151. *The National Battlefields Commission.* This Commission, which was constituted by the National Battlefields at Quebec Act, 1908, c. 57, with the objects of acquiring and preserving the historic battlefields at Quebec, comprises nine members, seven of whom are appointed by the Governor in Council and one by the governments of each of the provinces of Ontario and Quebec.

Prior to 1958 the Commission was financed by statutory grants made from time to time under the constituting Act, but since then the Commission has been financed by annual parliamentary appropriations. At March 31, 1964 the proprietary equity of the Crown in the Commission amounted to \$1,489,000 represented by an investment of \$1,479,000 in capital assets and \$10,000 in working capital.

The following is a summary of the expenses of the Commission for the year under review compared with those of the preceding year:

	Year ended March 31	
	1964	1963
Salaries, wages and related expenses	\$ 154,000	\$ 151,000
Policing services	20,000	14,000
Repairs of roads and driveways	18,000	21,000
Light, heat, power, gasoline and oil	11,000	10,000
Operating supplies and nursery stock	9,000	10,000
Other expenses	7,000	6,000
	<hr/> 219,000	<hr/> 212,000
Capital outlays	19,000	21,000
	<hr/> \$ 238,000	<hr/> \$ 233,000

The expenses of the Commission were financed to the extent of \$231,000 by parliamentary appropriation and the balance of \$7,000 was provided by utilization of surplus available from previous years' operations.

Salaries, wages and related expenses include \$4,000 paid to the former Secretary of the Commission on his appointment, by resolution of the Commission, as Associate Secretary and Counsel in order that he might complete the five years of service required for pension eligibility.

Funds contributed by provincial and municipal governments and others in the years following the establishment of the Commission in 1908, which may be used only for the acquisition of land with prior parliamentary approval, amounted to \$30,000 at March 31, 1964. The only changes in the balance of this account in over thirty years have been the increases arising out of investment earnings.

152. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c.37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission under the Act are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission, including loans, at March 31, 1964 totalled \$99,049,000 represented by: cash, \$384,000; inventories of tools, equipment and supplies, \$215,000; and cost of capital assets, \$98,450,000.

The Commission's activities are financed by annual parliamentary appropriations, withdrawals from the National Capital Fund and loans from the Government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1964	1963
Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull and general administration		
Expenditures	\$ 2,892,000	\$ 3,131,000
Provided for by:		
Parliamentary appropriations	2,668,000	2,905,000
Revenue	224,000	226,000
	<u>\$ 2,892,000</u>	<u>\$ 3,131,000</u>

AUDITOR GENERAL'S REPORT

Year ended March 31

	1964	1963
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National Capital Fund transactions

Amount due from National Capital Fund at beginning of year	\$ (258,000)	\$ —
Balance of Fund in hands of Commission at beginning of year	—	302,000

Add:

Amounts drawn from Fund	7,850,000	5,500,000
Proceeds from sales of property	177,000	120,000
	<u>7,769,000</u>	<u>5,922,000</u>

Deduct:

Capital outlays for parks, parkways, railway lines and structures, etc.	3,960,000	3,367,000
Repayment of loans to acquire property now in use—Ottawa River Parkway	61,000	—
Maintenance of land and rehabilitation works	90,000	81,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges, sewers, etc.	2,672,000	2,732,000
	<u>6,783,000</u>	<u>6,180,000</u>

Amount due from National Capital Fund at end of year		\$ 258,000
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Balance of Fund in hands of Commission at end of year	\$ 986,000	
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Acquisition of property in the National Capital Region through loans provided by the Government of Canada

Unexpended balance of loans at beginning of year	\$ 1,230,000	\$ 901,000
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Add:

Government of Canada loans (net)	12,081,000	9,428,000
Proceeds from sales of property	119,000	372,000
	<u>13,430,000</u>	<u>10,701,000</u>

Deduct:

Expenditures for acquisition of property	13,047,000	9,471,000
Unexpended balance of loans at end of year	\$ 383,000	\$ 1,230,000

Interest charges on outstanding Government of Canada loans

Interest on loans	\$ 2,319,000	\$ 1,776,000
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Provided for by:

Parliamentary appropriation	\$ 1,990,000	\$ 1,475,000
Net revenue from rentals of property and interest earnings	329,000	301,000
	<u>\$ 2,319,000</u>	<u>\$ 1,776,000</u>

The expenditures incurred in the various activities of the Commission, as summarized above, totalled \$25,041,000 during the year compared with \$20,558,000 in the preceding year and were financed as follows:

	Year ended March 31	
	1964	1963
Parliamentary appropriations	\$11,264,000	\$10,440,000
Loans to the Commission	12,928,000	9,099,000
Proceeds from sales of property	296,000	492,000
Revenues of the Commission	553,000	527,000
	<u>\$25,041,000</u>	<u>\$20,558,000</u>

The Public Accounts Committee gave further consideration to the practice of requiring the National Capital Commission to seek parliamentary appropriations to enable it to pay interest on funds provided to it for the purchase of properties. In its Sixth Report 1964 (see Appendix 1, item 36) the Committee again requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

153. *National Harbours Board.* This Board was established in 1936 by the National Harbours Board Act, now R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1963 totalled \$478,290,000, comprising: assets transferred to the Board on its establishment and subsequently, \$56,917,000; loans and advances, \$316,787,000; interest in arrears on loans and advances, \$78,559,000; and reserves, \$104,426,000; less the accumulated deficit of \$78,399,000.

There was a net increase of \$7,905,000 during the year in the outstanding loans and advances, the following being a summary of the changes in this account:

Balance, January 1, 1963	\$ 308,882,000
Add:	
Loans during year, secured by certificates of indebtedness	8,893,000
Advances	100,000
	<u>317,875,000</u>
Less: Repayments during year	1,088,000
Balance, December 31, 1963	<u>\$ 316,787,000</u>

The interest in arrears on the loans and advances has also increased steadily and, although outstanding interest amounting to \$44,790,000 was cancelled in 1947, interest in arrears had reached \$78,559,000 as at December 31, 1963. In previous Reports it has been observed that there appears little prospect of the Board being in a position to meet its principal and interest obligations and it was recommended that the financial structure be reconstituted on a more realistic basis. We are informed that this matter is now under active study.

Accounts receivable by the Board included the sum of \$185,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for the easement for a 20-inch natural gas pipeline on the Jacques Cartier Bridge. The amount represents \$112,000 outstanding on December 31, 1962 plus \$73,000 charged for 1963. In our previous Reports it was noted that authority for the installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate but that the Corporation subsequently would not agree to the rate proposed and requested the Board to consider one that was little more than nominal. Agreement still remains to be reached with respect to the rate to be charged.

The Jacques Cartier Bridge was operated, until revocation of tolls on June 1, 1962, under a tri-partite agreement, a provision of which required the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operations of the Bridge, to a maximum of \$150,000 each. In 1944 the Province refused to make the required contribution and as of the end of 1949 the accumulated indebtedness of the Province amounted to \$744,425. From 1950 until the revocation of tolls the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. In our 1963 Report it was pointed out that the settlement of this claim and the transfer of the Bridge to the Province had been subjects of negotiations between the Board and the Province but the claim was not settled nor was the Bridge transferred to the Province during the year under review.

Repeated reference has been made in previous Reports to the dispute between the Board and the Canadian Pacific Railway regarding the ownership of certain areas of Coal Harbour, Vancouver. Title to the areas involved has been in dispute since 1880 and, pending settlement of the matter, the C.P.R. collects rental and other revenue from certain areas in its possession while the Board does likewise in respect of certain areas which the Board has occupied. At December 31, 1963 the Board held \$153,000 in cash and securities and the C.P.R. held \$235,000 in escrow. No progress was made towards settlement of the dispute during the year.

In preceding years the Board's statement of income and expense reflected the combined results of operations of the harbours, elevators and bridges. Because imposition of tolls on the Jacques Cartier Bridge was revoked in 1962 and management regarded the loss experienced by the Champlain Bridge as mainly due to competition with toll-free bridges, the Board segregated the results of operations of the harbours and elevators from

that of the bridges by the preparation of separate statements of income and expense. The following is a summary of the operations of the harbours and elevators and of the bridges for the past two financial years:

	Year ended December 31	
	1963	1962
<u>Harbours and Elevators</u>		
Operating income—		
Harbours	\$ 3,237,000	\$ 3,184,000
Wharves and piers	9,690,000	9,267,000
Grain elevator systems	9,074,000	7,539,000
Cold storage systems	1,275,000	1,131,000
Permanent sheds	2,037,000	2,023,000
Railway systems	748,000	705,000
Miscellaneous services	1,227,000	1,213,000
	<hr/> 27,288,000	<hr/> 25,062,000
Operating and administrative expenses—		
Harbours	3,687,000	3,870,000
Wharves and piers	1,121,000	1,186,000
Grain elevator systems	6,010,000	5,235,000
Cold storage systems	1,130,000	1,173,000
Permanent sheds	1,382,000	1,485,000
Railway systems	1,087,000	1,103,000
Miscellaneous services	1,318,000	1,460,000
Administrative expenses	2,285,000	2,172,000
	<hr/> 18,020,000	<hr/> 17,684,000
Net operating income	9,268,000	7,378,000
Other income—		
Income from investments	2,307,000	2,475,000
Miscellaneous	147,000	169,000
	<hr/> 11,722,000	<hr/> 10,022,000
Special charges—		
Provision for interest on loans and advances	9,157,000	8,547,000
Provision for replacement of capital assets	4,519,000	4,292,000
Other	374,000	582,000
	<hr/> 14,050,000	<hr/> 13,421,000
Net loss	<hr/> \$ 2,328,000	<hr/> \$ 3,399,000

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	Year ended December 31	
	1963	1962
<u>Bridges</u>		
Operating income—		
Jacques Cartier Bridge	\$ 152,000	\$ 1,519,000
Champlain Bridge	448,000	170,000
	<u>600,000</u>	<u>1,689,000</u>
Operating expenses—		
Jacques Cartier Bridge	255,000	486,000
Champlain Bridge	426,000	182,000
	<u>681,000</u>	<u>668,000</u>
Net operating income (loss)	(81,000)	1,021,000
Special charges—		
Provision for interest on loans and advances	1,521,000	917,000
Provision for replacement of capital assets	508,000	201,000
Other	68,000	82,000
	<u>2,097,000</u>	<u>1,200,000</u>
Net loss	<u>\$ 2,178,000</u>	<u>\$ 179,000</u>

The unprecedented sales of wheat to Russia during 1963 increased revenue from grain elevation, top wharfage, berthage and from the railway systems. Other factors also contributed to the increased revenue of the harbours. A labour strike in the New York harbour resulted in the diversion of ships to Halifax and Saint John. At Montreal, the rental of space in newly constructed permanent sheds accounted for \$89,000 and an increase in income from the use of heavy-lift equipment in handling locomotives and large transformers amounted to \$83,000. At Vancouver, a new lease negotiated during the year provided that the rental rate be increased retroactively to August 1, 1961 thereby producing an increase of \$163,000 in elevator rentals. Except for the foregoing, the increase in revenue from harbours and elevators was almost entirely due to increased business activity.

As all tolls and charges assessable in respect of passage of vehicles over the Jacques Cartier Bridge were revoked as of June 1, 1962, there was a decrease of approximately \$1.4 million in revenue from this source. There was, however, an increase of \$25,000 in the income derived from investments, easements, etc. The Champlain Bridge recorded its first full year of operations as of December 31, 1963, having been opened for traffic on June 29, 1962.

The increase in operating and administrative expenses during 1963 was mainly due to the increased use of facilities resulting from the large shipments of wheat. There were, however, decreases in expenses at three locations. In Vancouver, cargo handling costs declined by \$109,000 mainly due to a reduction in rates under a stevedoring contract renegotiated late in 1962. At Quebec, approximately \$144,000 was spent in 1962 on major repairs to a quay wall and, at Halifax, some \$55,000 on a timber crib for a pier and on

power house motors. No major maintenance expenditures were incurred during 1963 at these locations.

The decrease in the operating expenses of the Jacques Cartier Bridge was due primarily to revocation of tolls since salaries and uniforms of toll-gate attendants, rental of automatic toll equipment and other charges were thus eliminated. On the other hand, the increase in costs of operating the Champlain Bridge was directly due to this bridge being in service for a full twelve-month period in 1963 compared with a six-month period in 1962.

154. *Northern Canada Power Commission.* This Commission which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 42, consists of three members appointed by the Governor in Council and has its head office in Ottawa. The objects of the Commission are to construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. Hydro-electric plants are operated at Snare River, N.W.T., and at Mayo River and Whitehorse Rapids, Y.T., and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson, Aklavik and Frobisher Bay, N.W.T., and at Field, B.C.

A hydro-electric power plant on the Taltson River, in the vicinity of Great Slave Lake, and major additions to the facilities at Frobisher Bay and Inuvik were under construction at the year-end.

The proprietary equity of the Government of Canada in the Commission at the close of the past two fiscal years, follows:

	March 31	
	1964	1963
Advances:		
Under section 14 of the Act— for investigation of projects	\$ 50,000	\$ 50,000
Under section 15 of the Act—for capital expenditures, including accrued interest	22,413,000	18,960,000
Equity represented by cost of central heating, water and sewerage and fire alarm systems at Inuvik, provided by parliamentary appropriation (Northern Affairs and National Resources Vote 119, Special Appropriation Act, 1963)	7,003,000	7,003,000
Reserve for contingencies pursuant to section 10 of the Act	1,797,000	1,601,000
Reserve for extension, expansion and improvements, equivalent to expenditures incurred on acquisition of capital assets, as permitted under section 22 of the Act	297,000	242,000
Surplus	988,000	856,000
	<u>\$32,548,000</u>	<u>\$28,712,000</u>

The Commission acts as agent for the Government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c.25, and, in this capacity, advances were made to the provincial power commissions of Nova Scotia, Newfoundland and New Brunswick. Outstanding loans totalled \$30,429,000 at the year-end.

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A summary of the income and expense of the Commission for the past two years follows:

	Year ended March 31	
	1964	1963
Income—		
Sales of power	\$ 2,883,000	\$ 2,798,000
Income arising from construction, maintenance and operation of facilities for government departments and others	689,000	568,000
Sales of steam and water heat	412,000	365,000
Miscellaneous	171,000	123,000
	<u>4,155,000</u>	<u>3,854,000</u>
Expense—		
Operating and maintenance	2,252,000	2,135,000
Administrative	244,000	236,000
Interest on advances from the Government of Canada	749,000	757,000
Depreciation (equivalent to repayment of principal of advances from the Government of Canada)	521,000	498,000
	<u>3,766,000</u>	<u>3,626,000</u>
Net income	<u>\$ 389,000</u>	<u>\$ 228,000</u>

Notwithstanding a reduction in rates charged for electric power in certain locations, there was an increase in income reflecting the continued rise in consumer demand for electric power, heat and other services.

The power lines and facilities at Aklavik, N.W.T., were purchased by the Department of Northern Affairs and National Resources from private parties in 1962 and the Commission has been operating these facilities for the Department since that time. Certain inventories included in the items purchased were not recorded in the Commission's accounts and these stores were counted for the first time in December 1963. They are now controlled by perpetual inventory records of quantities only and at March 31, 1964 values had not been established.

A complete physical inventory of the central heating, water and sewerage and fire alarm systems at Inuvik, having an original cost in excess of \$7 million, was commenced in the year under review. On completion, determination of the cost of individual items will be required and management does not anticipate completion of the project before March 31, 1966.

155. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c.10, for the purpose of constructing the Northern Ontario section of the all-Canadian gas pipe line and leasing it (subject to approval by the Governor in Council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In October 1958 the Corporation entered into an agreement to lease the Northern Ontario section to Trans-Canada Pipe Lines Limited for a period of 25 years, with an option to purchase the facilities, exercisable within the period of the lease agreement.

Under the terms of the lease, all expenses of operation, repairs and maintenance, taxes and other expenses of upkeep were borne by the lessee.

In last year's Report (paragraph 154) it was stated that the lessee had exercised the purchase option provided for in the agreement and that the sale by the Crown had been completed on May 29, 1963, following which the Corporation had discharged its liability to the Government of Canada for outstanding loans and interest accrued thereon. It was further reported that in accordance with the terms of sale, Trans-Canada Pipe Lines Limited had assumed responsibility for the negotiation and settlement of all claims then outstanding and any other claims which might arise in the future.

The capital cost of the Northern Ontario section at the date of sale amounted to \$129,856,000, comprising assets acquired of \$119,873,000, and engineering, administrative and financing expenses of \$9,983,000. In accordance with the agreement, the purchase price paid was \$108,373,000, representing the total capital cost less \$21,483,000 for amortization at $3\frac{1}{2}\%$ per annum, plus interest thereon compounded annually at $3\frac{1}{2}\%$ per annum for the period October 22, 1958 to May 29, 1963. With the subsequent discharge of its liabilities, the Corporation was left with a surplus of \$694,000, of which \$690,000 was on deposit with the Receiver General of Canada at the close of the Corporation's financial year on December 31, 1963.

156. *Northern Transportation Company Limited.* This Company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation Company (1947) Limited was incorporated as a private company by letters patent dated November 27, 1947 under the provisions of the Companies Act, 1934, to take over the business of a predecessor company which had been incorporated under a Province of Alberta charter in 1934 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Government in 1944. The corporate name was changed to Northern Transportation Company Limited by supplementary letters patent dated August 19, 1952.

The Company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere. Although the head office of the Company is in Ottawa, administrative headquarters are in Edmonton and activities have been almost wholly confined to the Mackenzie River water system and the Western Arctic.

The equity of Eldorado Mining and Refining Limited at December 31, 1963 was \$6,431,000, comprising capital stock of \$152,000, surplus of \$5,029,000 and a reserve for insurance of \$1,250,000.

At the year-end the Company held \$4,450,000 in interest-bearing short term bank deposits, \$3,200,000 as working capital and \$1,250,000 as an insurance investment fund. In our reports to the President and Directors of the Company for the last two years, we have drawn attention to a recommendation of the Royal Commission on Government Organization that all cash surplus to operating requirements of Crown corporations should be placed on deposit with the Receiver General at a reasonable rate of interest. Section 81 of the Financial Administration Act provides the authority for such deposits and for the payment of interest.

AUDITOR GENERAL'S REPORT

The following is a comparative summary of the operating results of the Company for its last two financial years:

	Year ended December 31	
	1963	1962
Income—		
Freight earnings	\$ 2,809,000	\$ 2,234,000
Expense—		
Operations and maintenance:		
Salaries and wages	782,000	647,000
Depreciation	479,000	477,000
Repairs and maintenance	330,000	243,000
Fuels and lubricants	161,000	126,000
Messing expense	129,000	106,000
Other	146,000	144,000
	2,027,000	1,743,000
Administrative	245,000	251,000
	2,272,000	1,994,000
Net income from operations	537,000	240,000
Miscellaneous income	173,000	142,000
	710,000	382,000
Provision for income tax	439,000	250,000
Net income	\$ 271,000	\$ 132,000

Freight earnings increased by \$575,000 or 25.8% over those of the preceding year. The additional revenue was derived mainly from shipments to Alaska and the western Arctic and from increased deliveries to the Beaverlodge mine of Eldorado Mining and Refining Limited. The general increase in operating and maintenance expenses of \$284,000 or 16.3% was the result of the larger number of vessels in operation and increased traffic volume.

The tonnage hauled to the far north, combined with the higher Arctic tariff rate, contributed materially to the increased net income for the year, as these movements involved "long-haul" freight which is more economically handled.

157. *Park Steamship Company Limited*. This company was incorporated in 1942 under the Companies Act, 1934, for the purpose of supervising the operation of Crown-owned cargo vessels. The "Park fleet" was sold in 1946-47 and since then the activities of the company have been confined to the settlement of occasional claims for compensation by seamen for injuries sustained during previous service. These activities have been performed by the staff of the Canadian Maritime Commission.

In view of the fact that no claims for compensation had been received during the past two years, the Audit Office has suggested that the company's charter be surrendered and we have been informed that action in this direction has commenced.

158. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934, pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, 1939, c. 3, as amended. At December 31, 1963, there were three wholly-owned subsidiary companies, S.A. Polysar Belgium N.V., Polysar Nederland N.V., and Polysar International S.A., as well as one subsidiary, Polymer Corporation (SAF), in which Polymer held a 95% equity and a French bank the remaining 5%. Polymer Corporation (SAF) was incorporated under the laws of France in January 1961 and in the fall of 1962 its special purpose rubber plant located near Strasbourg commenced operations, although output to the end of that year was nominal. S.A. Polysar Belgium N.V. was formed under the laws of Belgium in December 1961 and start-up operations at its butyl rubber plant near Antwerp commenced late in 1963. Polysar Nederland N.V., which is a holding company, was incorporated in accordance with the laws of Holland in May 1962. Polysar International S.A., with headquarters in Fribourg, Switzerland, and branch offices in Vienna, London, Tokyo and Mexico City, was incorporated under Swiss law in June 1962 for the purpose of marketing all Polymer products outside of North America except those products which are both manufactured and sold in France and Belgium. The parent company produces synthetic rubbers and chemicals at Sarnia where the head office is also situated.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1963 amounted to \$84,992,000, consisting of capital stock of \$30,000,000 and retained earnings of \$54,992,000. During the year under review dividends of \$3,250,000 were paid to the Receiver General, compared with \$3,000,000 paid in the previous year.

The company is participating in synthetic rubber projects in Mexico and South Africa. At the year-end, its investment as a minority shareholder in the capital stock of the companies responsible for these projects amounted to \$220,000.

Net additions to fixed assets during the year amounted to \$17,636,000 and included the costs of completing the butyl plant in Belgium, the solution polymer plant at Sarnia and the special purpose rubber plant in France as well as improvements to other facilities. The managements of the several companies estimate that \$14,550,000 will be spent for the acquisition of capital assets and investment in shares of other companies during the year ending December 31, 1964.

In computing taxable income for the years 1961, 1962 and 1963 the company took advantage of capital cost allowances permitted under the Income Tax Act which were in excess of depreciation charged in the accounts. The effect of this procedure was to defer payment of income tax totalling \$3,785,000 until future years when depreciation charges may be in excess of capital cost allowances.

To finance construction of the plants in France and Belgium, Polymer Corporation (SAF) borrowed Fr 35,600,000 (\$7,817,200), repayable 1965-1971, and S.A. Polysar Belgium N.V. negotiated a loan of B.Fr 450,000,000 (\$9,700,000), repayable 1969-1977, on which B.Fr 350,000,000 (\$7,567,000) was received by the year-end. With the exception of Fr 15,280,000 (\$3,354,900), the loans are guaranteed by the parent company and all are repayable in the currency in which they were obtained.

AUDITOR GENERAL'S REPORT

The following is a summary of the results of operations of the company and its subsidiaries for the last two years:

	Year ended December 31	
	1963	1962
Sales	\$97,460,000	\$87,022,000
Other income	346,000	435,000
	<u>97,806,000</u>	<u>87,457,000</u>
Cost of sales	76,576,000	63,634,000
Selling, administrative and research expenses	6,688,000	4,774,000
	<u>83,264,000</u>	<u>68,408,000</u>
Net income before provision for income tax	14,542,000	19,049,000
Provision for income tax	5,480,000	8,765,000
	<u>9,062,000</u>	<u>10,284,000</u>
Net income before minority shareholder's interest	9,062,000	10,284,000
Minority shareholder's interest in subsidiary company	76,000	—
Net income	<u>\$ 9,138,000</u>	<u>\$10,284,000</u>

Sales increased by \$10,438,000 due, in part, to the greater volume of rubber available from new production facilities. Contributing factors to the increases of \$12,942,000 in cost of sales and \$1,914,000 in selling, administrative and research expenses included the higher volume of production and additional costs resulting from the new production facilities, including, for the first time, a full year's costs of operation of Polymer Corporation (SAF) and Polysar International S.A., increased research and development activity and higher interest costs resulting from increased borrowing.

159. *The St. Lawrence Seaway Authority*. Established by the St. Lawrence Seaway Authority Act, R.S., c.242 (proclaimed July 1, 1954) the Authority maintains and operates the Canadian section of the 27-foot waterway between the Port of Montreal and Lake Erie. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans. The Authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a President and two other Members as provided by the Act. Its head office is at Ottawa, with operating headquarters at Cornwall and regional headquarters at St. Lambert and St. Catharines.

The Crown's equity at December 31, 1963 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport (including Welland Ship Canal at a value of \$130,717,000)	\$ 180,564,000
Loans under section 25 of the Act	341,500,000
Temporary loans under section 26 of the Act	8,000,000
Interest on loans—deferred	66,261,000
	<hr/>
	596,325,000
Deduct: Deficit	51,625,000
	<hr/>
	<u>\$ 544,700,000</u>

The following is a summary of the income and expense of the Authority for its past two financial years:

	Year ended December 31	
	1963	1962
Income—		
Tolls	\$10,730,000	\$ 9,556,000
Net income from operation of Cornwall-Roosevelt international bridge	193,000	121,000
Other	1,122,000	1,039,000
	<hr/>	<hr/>
	12,045,000	10,716,000
Expense—		
Operation and maintenance	6,231,000	5,626,000
Headquarters administration	1,207,000	1,290,000
Regional administration	700,000	713,000
Engineering	577,000	558,000
	<hr/>	<hr/>
	8,715,000	8,187,000
Less:		
Portion of administration and engineering expense applicable to non-toll canals or allocated to other accounts	745,000	816,000
	<hr/>	<hr/>
	7,970,000	7,371,000
Net operating income before providing for interest and for replacement of machinery and equipment	4,075,000	3,345,000
	<hr/>	<hr/>
Interest on loans from the Government of Canada	16,803,000	15,397,000
Interest on contractors' claims and other accounts	1,000	164,000
Provision for replacement of machinery and equipment	961,000	888,000
	<hr/>	<hr/>
	17,765,000	16,449,000
	<hr/>	<hr/>
Net loss	\$13,690,000	\$13,104,000

Tolls for the transit of the Welland Canal were suspended by the Government in July, 1962. The resulting loss in revenue for 1963 was estimated at \$1,810,000.

AUDITOR GENERAL'S REPORT

The extent by which revenues in 1963 fell short of meeting expenses in each of the two sections of the waterway and of the North Channel bridge is shown in the following summary:

	St. Lawrence River Section	Welland Canal	North Channel Bridge	Total
Tolls	\$10,730,000	\$	\$	\$10,730,000
Other income	342,000	780,000	193,000	1,315,000
	11,072,000	780,000	193,000	12,045,000
Expenses of operation, maintenance and administration	3,118,000	4,852,000		7,970,000
Net operating profit (loss)	7,954,000	(4,072,000)	193,000	4,075,000
Interest on loans	14,284,000	2,091,000	428,000	16,803,000
Interest—other		1,000		1,000
Provision for replacement of machinery and equipment	541,000	410,000	10,000	961,000
	14,825,000	2,502,000	438,000	17,765,000
Net loss	\$ 6,871,000	\$ 6,574,000	\$ 245,000	\$13,690,000

On the St. Lawrence River section the net operating profit of \$7,954,000 compares with profits of \$6,200,000 in 1962, \$5,893,000 in 1961, \$5,178,000 in 1960 and \$5,894,000 in 1959. On the Welland Canal, the net operating loss of \$4,072,000 compares with losses of \$2,976,000 in 1962, \$2,176,000 in 1961, \$1,726,000 in 1960 and \$633,000 in 1959.

Toll revenues for five full navigation seasons have been substantially less than had been anticipated by the Canadian and United States tolls committees in 1958, as shown below:

	St. Lawrence River		Welland Canal	
	Estimated	Actual	Estimated	Actual
1959	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960	10,789,000	7,156,000	2,215,000	1,326,000
1961	12,277,000	8,086,000	2,369,000	1,462,000
1962	13,765,000	8,914,000	2,575,000	642,000*
1963	15,254,000	10,730,000	2,730,000	—
	\$61,386,000	\$41,991,000	\$11,949,000	\$ 4,654,000

*Tolls for the transit of the Welland Canal were suspended in July 1962.

The Authority and the Saint Lawrence Seaway Development Corporation were to report to their respective Governments by July 1, 1964 on the adequacy of the toll structure to provide sufficient revenue to meet their operating costs and financial obligations. However, the Governments of Canada and the United States agreed, through an exchange of notes, to defer the date on which the entities are to report from July 1, 1964 to July 1, 1966. The Governments agreed that the joint review of the tariff of tolls is to be continued and that, at the conclusion of the two-year extension, tolls proposals are

to be related as realistically as possible to the financial requirements of the Seaway entities. In this connection, and assuming that the present financial arrangements which are noted below are also extended to 1966, it has been estimated that, beginning with 1966, the Authority will require revenues of about \$32 million each year for 44 years to meet operating costs and debt repayments. Tolls and other income in 1963 amounted to only \$12 million.

Section 25 of the St. Lawrence Seaway Authority Act provides that the Minister of Finance, with the approval of the Governor in Council, may from time to time make loans to the Authority. Section 13 of the Act, as amended, states that the aggregate of the amounts so borrowed under the Act and outstanding shall not at any time exceed \$535,000,000. At December 31, 1963 the Authority was indebted to the Government of Canada in respect of loans and deferred interest in the total amount of \$415,761,000, made up as follows:

Loans under section 25 of the Act	\$ 341,500,000
Temporary loans under section 26 of the Act	8,000,000
Interest to December 31, 1959—deferred	19,427,000
Interest for the year 1961—deferred	14,289,000
Interest for the year 1962—deferred	15,672,000
Interest for the year 1963—deferred	16,873,000
	<hr/>
	\$ 415,761,000
	<hr/>

Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations, which costs shall include (a) payments in respect of interest on amounts borrowed by the Authority, (b) amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years, and (c) the cost of operating and maintaining the canals and works under the administration of the Authority, including all operating costs of the Authority and such reserves as may be approved by the Minister. Pursuant to these provisions, the original conditions under which loans were made to the Authority under section 25 of the Act required the payment of interest only in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize the loans and interest thereon over a period of 47 years (i.e., by December 31, 2009).

The terms of the Authority's financing arrangements were amended in 1961 and again in 1963 and the principal amount of loans received to finance construction of the Seaway, together with interest previously deferred and all other interest now accrued or accruing up to December 31, 1964, is now to be repaid, together with current interest thereon, in 45 equal annual instalments commencing December 31, 1965.

In accordance with these financial arrangements, the operations for 1963 have been charged with interest amounting to \$16,803,000 (an additional amount of \$70,000 was included in construction costs) but this interest has not been paid and is included in the balance sheet as part of the Proprietary Equity of the Government of Canada. There was no charge to the year's operations with respect to amortization of the principal of the amounts borrowed.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in paragraph (c) of section 16 as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance costs and that the amortization over the 50 year period of the principal of the amounts borrowed, together with interest as required by subsections (a) and (b), and provision for replacement of machinery and equipment as mentioned below, meets the requirements of the Act. Accordingly no provision for depreciation has been included in the costs for the year under review.

Provision has been made during the year toward the cost of replacing machinery and equipment, including locks, bridge and building machinery and equipment, in the amount of \$961,000. The reserve for replacement of machinery and equipment, as thus augmented, amounted to \$4,254,000 at December 31, 1963. No provision has been made in the accounts for the replacement of buildings, lock gates and lock and bridge structures. The Authority considers that these Seaway works can be maintained in working condition at all times under its maintenance program.

By amendment to the St. Lawrence Seaway Authority Act in December 1963, the borrowing power of the Authority was increased from \$345,000,000 to \$535,000,000 in order to provide \$180,000,000 for the twinning of the Welland Canal locks and \$10,000,000 to enable the Authority to pay a claim of the Canadian National Railways for \$11,753,000 in connection with the Victoria Bridge diversion. As noted in paragraph 158 of our 1963 Report, the Governor in Council had determined that the Authority was responsible for the cost of the diversion but not for the interest portion of the Railway's claim. Interest amounting to \$2,816,000 was paid by the Department of Transport as a charge to Vote 108e.

The following table summarizes the expense, income and capital expenditures relating to the non-toll canals operated or administered by the Authority for the past two years:

	Year ended December 31	
	1963	1962
Expense—		
Operation and maintenance	\$ 3,498,000	\$ 2,487,000
Portion of Authority's administration and engineering expense applicable to non-toll canals	462,000	374,000
	3,960,000	2,861,000
Income from rentals, wharfage, etc.	559,000	601,000
Operating deficit	3,401,000	2,260,000
Capital expenditures	164,000	76,000
Operating deficit and capital expenditures (recovered from parliamentary appropriations)	\$ 3,565,000	\$ 2,336,000

The increase of \$1,099,000 in expense for 1963 is attributable mainly to special grants of \$473,000 to municipalities which have assumed responsibility for part of the Welland Feeder Canal that has not been used for navigational requirements since 1924 and to costs of \$508,000 to repair two bridges over the Lachine Canal.

160. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Companies Act, pursuant to section 24A of the St. Lawrence Seaway Authority Act, as a subsidiary of The St. Lawrence Seaway Authority for the purpose of operating and managing the international toll bridge between Cornwall, Ontario, and Rooseveltown, New York, on behalf of the owners, The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Seaway entities have an equal interest in the assets of the Corporation and each has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Saint Lawrence Seaway Development Corporation the annual income from operation of the bridge system, after payment of operating expenses, is to be applied first towards the amortization of the cost of the North Channel bridge, together with interest, after which the balance of the income is to be divided equally between the Seaway entities.

The Seaway International Bridge Corporation, Ltd. commenced operations on January 1, 1963. Previously the international bridge had been operated by the Cornwall International Bridge Company Limited to July 2, 1962 and by The St. Lawrence Seaway Authority from July 3, 1962 to December 31, 1962. The following is a summary of the bridge Corporation's operations for the year ended December 31, 1963:

Income—	
Bridge tolls	\$ 367,000
Other	20,000
	<hr/>
	387,000
Expense—	
Salaries, wages and employee benefits	68,000
Maintenance and repairs	60,000
Advertising	14,000
Rental of toll collection machines	13,000
Grant in lieu of municipal taxes	11,000
Other	28,000
	<hr/>
	194,000
Balance of net income transferred to The St. Lawrence Seaway Authority	\$ 193,000
	<hr/>

The amount of \$193,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost of the North Channel bridge together with interest thereon, leaving an unamortized balance of \$8,873,000 at December 31, 1963. It will be noted by reference to paragraph 159 that the amount transferred did not cover the interest on the indebtedness with respect to the North Channel bridge which amounted to \$428,000 during the year under review.

Departmental Operating Activities

161. In our Reports for several successive years it has been pointed out that although the Financial Administration Act is specific as to the financial statements to be prepared by Crown corporations, there is no statutory direction regarding the preparation of appropriate financial statements by departments engaged in trading or servicing activities. In general, the practice has been to confine reporting to the inclusion of the revenue from such activities in the Public Accounts among the other items of revenue, while the expenditure reporting has been associated with the relevant parliamentary appropriations. In addition, where statutory revolving funds are used to acquire materials, etc., statements summarizing the transactions in the revolving fund accounts are also included in the Public Accounts.

Since 1960 we have expressed the view that Parliament should be given a clearer understanding of the actual financial results of the individual departmental trading and servicing activities. We have pointed out how, without necessarily disturbing the basis of reporting presently followed, consideration could be given to the inclusion in the Public Accounts of financial statements for the various activities drawn up to show the overall results of operations in a clear, concise manner. The statements contemplated would be on the accrual basis and include charges for amortization of building and equipment costs, interest on funds employed, services provided by other departments, etc. The form of presentation would permit a reconciliation between the operating results on this basis and those recorded on the cash basis. Balance sheets could also be prepared which would indicate the value of the assets employed by and the indebtedness of the activities at the year-end. If statements of this type were produced the Audit Office would be prepared to examine and certify them.

This view was supported by the Public Accounts Committee in its Fifth Report 1961 when the Committee stated that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements included in the Public Accounts, provided that this would not involve undue cost or staff increases. This belief was reiterated by the Committee in its Fourth Report 1963 and the Auditor General was requested "to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course" (see Appendix 1, item 2).

It should also be noted that the Royal Commission on Government Organization in its reports published in 1962, in commenting on the inadequacies of the existing information on departmental operating activities, recommended the development of more informative financial statements covering these activities as an aid to effective management.

The work entailed in preparing such statements does not have to be elaborate or extensive. As part of its comprehensive audit approach, the Audit Office seeks to assist departments, Crown corporations and other agencies interested in developing accurate and effective financial statements showing their operating activities. It does so not only to assist in the development of more effective financial information for Parliament in the

Public Accounts, but also to help the departmental managements in developing more effective tools and yardsticks with which to control their costs of operation. It will be seen from the details contained in the following paragraphs how several of the larger departments and agencies involved in trading or servicing activities have already reached or are progressing toward this objective.

The wider use of accurate periodic comparative statements of this type is essential if departments and agencies at all levels are to exercise an effective scrutiny and control of their costs. In our opinion, greater progress could be made toward this objective were the program to receive more active encouragement and support from top management.

162. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, R.S., c. 4, and consists of a chairman and two other members appointed by the Governor in Council. The Act empowers the Board, subject to approval of the Governor in Council and under the direction of the Minister of Agriculture, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial trading transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

A summary of the results of operations for the years ended March 31, 1964 and 1963 follows:

	Year ended March 31	
	1964	1963
Sales—		
Dry skim milk	\$ 2,088,000	\$ 1,212,000
Cost of sales—		
Inventory, April 1	1,195,000	—
Purchases	2,240,000	2,499,000
Storage	78,000	209,000
	3,513,000	2,708,000
Less: Inventory, March 31	453,000	1,195,000
	3,060,000	1,513,000
Net loss on sales	972,000	301,000
Freight, cartage, handling, etc.	32,000	205,000
Dry skim milk donated to charitable organizations	—	364,000
Loss for the year, provided by parliamentary appropriation	\$ 1,004,000	\$ 870,000

In addition to the loss of \$1,004,000 for 1963-64 charged to Department of Agriculture Vote 173e, Appropriation Act No. 2, 1964, a total of \$87,000 should be taken into consideration for the estimated cost of administrative and accounting services of \$5,000 supplied by government departments and for interest of \$82,000 on funds employed.

Only one agricultural product, first grade dry skim milk, was bought and sold during the last two years. During the year under review, the Board purchased 3,951,000 pounds of dry skim milk and sold for export 13,454,000 pounds including 8,853,000 pounds sold to the Department of External Affairs for donations to other countries. Donations of dry skim milk recorded as a charge to Department of Agriculture Vote 164 for the year ended March 31, 1963 were the subject of a comment in our 1963 Report (paragraph 48). The Board also purchased 16,411,000 pounds of dry skim milk from exporters at eleven cents per pound and resold the product to the same exporters at seven cents per pound without the Board taking possession. Payments of the four cent differential, aggregating \$656,440, were made on presentation of the relative export documents.

At March 31, 1964 the Board held 3,854,000 pounds of dry skim milk recorded at a cost of \$453,000 compared with 13,358,000 pounds at a cost of \$1,195,000 at the preceding year-end.

163. *Agricultural Stabilization Board.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility of stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board except for administrative expenses which are met through annual parliamentary appropriations.

In response to the recommendation of the Public Accounts Committee in its Fifth Report 1961, overall financial statements, including the estimated cost of major services provided without charge by government departments, were prepared by the Agricultural Stabilization Board for examination and certification by the Audit Office.

The proprietary equity of the Government of Canada at the year-end of \$61,399,000 was represented by inventories, at estimated market value, consisting of 146,730,000 pounds of butter, \$60,091,000, and 4,359,000 pounds of pork, \$1,334,000, offset in part by a liability for customers' advances.

The inventory of butter reflects a decrease of 25.2 million pounds from the 171 million pounds held on March 31, 1963. The inventory of pork declined by 10.3 million pounds during the year, of which 5.6 million pounds represented sales to the Department of External Affairs for donations to other countries. The decline in inventories was due to accelerated steps taken to dispose of butter oil and the policy adopted of making stabilization payments instead of engaging in purchase-sale programs.

The results of the Board's activities for the year ended March 31, 1964 are summarized as follows:

Trading Operations—

Cost of products sold	\$ 92,058,000	
Revenue from sales	66,620,000	
Net loss on sales	25,438,000	
Reduction in valuation of year-end inventories of butter by \$48,496,000 and pork products by \$2,349,000 to estimated market value	50,845,000	
Cost of products destroyed by fire	5,032,000	
Net loss on trading operations		\$ 81,315,000

—by commodities—

	Sales	Cost of sales	Net loss
Butter	\$ 57,292,000	\$ 130,898,000	\$ 73,606,000
Pork	2,255,000	9,022,000	6,767,000
Cheese	6,966,000	7,744,000	778,000
Dried skim milk	107,000	271,000	164,000
	<u>\$ 66,620,000</u>	<u>\$ 147,935,000</u>	<u>\$ 81,315,000</u>

Deficiency Payments—

Wool	727,000
Honey	76,000
Other	11,000

814,000

Payments for Stabilization of Prices—

Butterfat content of milk and cream	35,351,000
Milk used for cheddar cheese	4,283,000
Dried casein and caseinates	1,865,000
Milk	1,162,000

42,661,000

Estimated cost of major services provided without charge by government departments—

Interest on working capital	8,761,000
Administration	503,000
Accounting and cheque issue services	176,000
Accommodation	33,000
Contributions to Public Service Superannuation Account	16,000
Carrying of franked mail	7,000
Employee surgical-medical insurance premiums	1,000

9,497,000

Total loss \$ 134,287,000

The loss for the year was met to the extent of \$122,235,000 by funds provided by Department of Agriculture Vote 172e, Appropriation Act No. 2, 1964, and to the extent of \$9,497,000 by major services provided without charge by government departments. The balance of \$2,555,000 was deducted from the proprietary equity of the Government of Canada on the balance sheet of the Board.

AUDITOR GENERAL'S REPORT

Stocks of butter and pork products were valued for the first time at estimated market value at the close of the year which resulted in a loss of \$50,845,000. In addition, a warehouse in which certain products (mainly butter) were stored was destroyed by fire which resulted in a loss of \$5,032,000. Both losses have been charged to trading operations as shown above.

The loss resulting from this warehouse fire was absorbed because it is the policy of the government not to carry fire insurance. We suggest that it would provide useful additional information if a statement of losses by accidental destruction of or damage to assets, which in accordance with this policy are not insured, were prepared for inclusion in the Public Accounts.

164. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1964 was \$605,596,000 compared with \$579,085,000 at the same date in the preceding year, a net increase of \$26,511,000 for the year under review.

The revenue from civil aviation airport operations for the year ended March 31, 1964 amounted to \$16,971,000 compared with \$15,519,000 in the preceding year. Details of this revenue, together with comparable figures for the preceding year, are as follows:

	Year ended March 31	
	1964	1963
Aircraft landing fees—		
Domestic	\$ 3,609,000	\$ 3,235,000
Trans-oceanic	3,478,000	3,074,000
Trans-border	992,000	753,000
Other	15,000	23,000
	<u>8,094,000</u>	<u>7,085,000</u>
Rentals—		
Office, shop and garage space	1,425,000	1,239,000
Living quarters	361,000	386,000
Hangar	183,000	197,000
Other	1,036,000	1,077,000
	<u>3,005,000</u>	<u>2,899,000</u>
Concessions—		
Gasoline and oil	1,927,000	1,881,000
Other	2,200,000	1,824,000
	<u>4,127,000</u>	<u>3,705,000</u>
Miscellaneous revenue	1,745,000	1,830,000
Total revenue	<u>\$16,971,000</u>	<u>\$15,519,000</u>

The parliamentary appropriation for "Airports and Other Ground Services—Operation and Maintenance" (Transport Vote 145) was charged with expenditures totalling \$20,281,000 for the year 1963-64, an increase of \$526,000 over the corresponding figure of \$19,755,000 for the preceding year.

The excess of expenditure (excluding new construction) on airways and airports over the revenue received, as reflected in the Department of Transport section of the 1963-64 Public Accounts, was therefore \$3,310,000, a decrease of \$926,000 from the preceding year's figure of \$4,236,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for approximately 88% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes. A consolidation of these statements, which includes provision for depreciation of civil aviation facilities (though not the other costs referred to), for the year ended March 31, 1964 is given as an appendix to the Department's section of the Public Accounts.

165. *Board of Grain Commissioners for Canada.* This Board operates under the authority of the Canada Grain Act, R.S., c.25, and is composed of a chief commissioner and two other commissioners appointed by the Governor in Council. The Board has jurisdiction to inquire into any matter relating to grading, weighing and storage of grain, unfair or discriminatory operation of any elevator, and any other matter arising out of the performance of the duties of the Board.

The following is a comparative summary of the results of operations for the past two fiscal years:

	Year ended March 31	
	1964	1963
Expenditure—		
Salaries, allowances, etc.	\$ 4,496,000	\$ 4,258,000
Rent	211,000	206,000
Contributions to Public Service Superannuation Account	249,000	237,000
Travel	158,000	122,000
Printing and stationery	54,000	58,000
Other	244,000	232,000
	<u>5,412,000</u>	<u>5,113,000</u>
Revenue—		
Inspection	2,034,000	1,584,000
Weighing	1,005,000	794,000
Registrations and cancellations	58,000	44,000
Licences	28,000	29,000
Sundry	4,000	2,000
	<u>3,129,000</u>	<u>2,453,000</u>
Excess of expenditure over revenue	\$ 2,283,000	\$ 2,660,000

AUDITOR GENERAL'S REPORT

The increase of \$238,000 in salaries, allowances, etc., is mainly due to the increased volume of grain movement during the year over the previous year. The expenditures of the Board for the first time include the estimated costs of \$277,000 for accommodation, contributions to the Public Service Superannuation Account and other services provided by government departments.

Despite the increase in revenue during the year, the Board sustained a deficit of almost \$2.3 million. Costs of the various services provided by the Board have increased substantially, while the fees charged for weighing services have not been revised since 1920 and for inspection services since 1949. In our previous Reports reference has been made to this situation and to a recommendation made in 1961 by the Public Accounts Committee that "steps be taken to bring revenues and expenditures into balance". We were advised by the Deputy Minister of Agriculture in May 1964 "that effective August 1, 1965, the Board of Grain Commissioners proposes to amend its regulations to increase inspection and weighing fees by 50%, in order to enable the Board to meet expenditures in providing these services". In setting the implementation date at August 1, 1965, the Board's decision was based on the premise that it was not equitable to impose changes in fees which would affect net returns on contracts already entered into by the Wheat Board under the international agreements then existing (see Appendix 1, item 15).

166. *Canadian Government Elevators.* The Canadian Government Elevators, managed and operated by the Board of Grain Commissioners for Canada under section 166 of the Canada Grain Act, R.S., c.25, and Order in Council P.C. 1372 of August 19, 1925, comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert.

The proprietary equity of the Government of Canada in the elevators at March 31, 1964 was \$10,803,000, represented by fixed assets costing \$10,404,000 acquired out of funds provided through parliamentary appropriations, together with a surplus of \$399,000.

The following is a summary of the results of operations for the year under review with the comparable amounts for the preceding year:

	Year ended March 31	
	1964	1963
Expenditure—		
Salaries and wages	\$ 886,000	\$ 785,000
Grants in lieu of taxes	195,000	112,000
Maintenance—buildings, plant and equipment	149,000	258,000
Power	84,000	65,000
Head office expenses	59,000	62,000
Contributions to Public Service Superannuation Account	58,000	51,000
Employees' surgical-medical insurance and compensation	33,000	29,000
Rent	10,000	10,000
Other	35,000	32,000
	<u>1,509,000</u>	<u>1,404,000</u>

	Year ended March 31	
	1964	1963
Revenue—		
Storage	558,000	822,000
Elevation	343,000	157,000
Cleaning	91,000	35,000
Screenings	75,000	—
Drying	17,000	11,000
Elevator rental	—	26,000
	<u>1,084,000</u>	<u>1,051,000</u>
Operating loss	<u>425,000</u>	<u>353,000</u>
Deduct:		
Miscellaneous revenue	20,000	12,000
Credits for estimated cost of services provided without charge by government departments	101,000	90,000
	<u>121,000</u>	<u>102,000</u>
Net loss, without providing for depreciation	<u>\$ 304,000</u>	<u>\$ 251,000</u>

The movement of large quantities of wheat as a result of the sales agreement with China required the employment of more casual employees than is normal which, for the most part, explains the increase in salaries and wages. Grants in lieu of taxes were adjusted retroactively with the result that an amount of \$30,000 was added to the annual grant and a further \$53,000 was paid with respect to the two previous years. As noted in previous years' Reports, expenditures do not include amortization of elevator construction costs. On the other hand, for the first time, the expenditures include the estimated cost of \$101,000 for accommodation, contributions to the Public Service Superannuation Account and other employee benefits provided without charge by government departments.

During the year, 15,531,000 bushels of grain were received by the elevators compared with 6,252,000 in the previous year, which explains the increase in revenue from elevation, drying, cleaning, and screenings.

The rapid turnover of wheat during the year, accompanied by shipments from the elevators at Moose Jaw and Saskatoon, without replenishment of stocks, mainly accounts for the decrease in storage revenue. No elevator rental was received during the year because the elevator at Port Arthur had been sold in 1962.

A loss of \$130,000 by the Lethbridge elevator was its nineteenth consecutive annual loss. The accumulated deficits during this period have amounted to \$821,000.

167. *National Film Board.* This Board was established in 1939 by the National Film Act, now R.S., c.185, for the purpose of promoting the production and distribution of films in the national interest. Section 18 of the Act provides for the establishment of the National Film Board Operating Account in the Consolidated Revenue Fund. The Account is credited with amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (National

Film Board Vote 1), amounts transferred from appropriations of government departments in respect of work undertaken for them, and income arising from the sale and rental of films and other visual materials. The Account is charged with all expenditures made by the Board, other than those for the acquisition of capital equipment which are charged to a separate appropriation. However, National Film Board Vote L30, Appropriation Act No. 5, 1963, authorizes charges to the Account for the acquisition of capital equipment for the Canadian Government Photo Centre which was established during the year for the purpose of co-ordinating the government's still photographic operations in Ottawa.

The equity of the Crown in the Board at March 31, 1964 was \$1,820,000, consisting of the balance of \$451,000 in the National Film Board Operating Account, including \$29,000 for Canadian Government Photo Centre equipment, and an investment of \$1,369,000 represented by the depreciated value of equipment transferred to the Board at its inception or purchased out of funds provided through parliamentary appropriations for the purchase of capital equipment, less disposals.

As provided by the Act, the Board maintains an accounting system on the accrual basis in addition to the accounts maintained by the Comptroller of the Treasury on the cash basis. The following is a summary of the results of the Board's operations for the year, compared with those of the preceding year:

	Year ended March 31	
	1964	1963
Expense—		
Production of films and other visual materials	\$ 3,068,000	\$ 2,975,000
Distribution of films	2,413,000	2,313,000
Cost of production of films and other visual materials for government departments and others	1,631,000	1,557,000
Estimated cost of major services provided without charge by government departments	1,099,000	1,083,000
Administration and general services	963,000	900,000
Depreciation on equipment	349,000	342,000
	<u>9,523,000</u>	<u>9,170,000</u>
Income—		
Sales of films and other visual materials	1,844,000	1,740,000
Rentals and royalties	757,000	585,000
Miscellaneous	29,000	25,000
	<u>2,630,000</u>	<u>2,350,000</u>
Net expense	<u>\$ 6,893,000</u>	<u>\$ 6,820,000</u>
Net expense provided by:		
Parliamentary appropriations	\$ 5,445,000	\$ 5,395,000
Major services provided without charge by government departments	1,099,000	1,083,000
Depreciation	349,000	342,000
	<u>\$ 6,893,000</u>	<u>\$ 6,820,000</u>

The Board's statement of income and expense for the year ended March 31, 1964 included, for the first time, the estimated costs of accommodation, contributions to the Public Service Superannuation Account, accounting and other services provided by government departments and depreciation on equipment. In the statements for the previous two years, this information was provided by means of a note to the Board's financial statements. The comparative statement of income and expense for the year ended March 31, 1963, as summarized above, was adjusted to incorporate these charges.

168. *Post Office activities.* The following is a summary of the Post Office transactions as recorded in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1964 in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1964	1963
Gross postal revenue	\$ 235,808,000	\$ 222,300,000
Less: Expenses paid from revenue	35,091,000	29,528,000
Net postal revenue	200,717,000	192,772,000
Miscellaneous revenue	57,000	59,000
	200,774,000	192,831,000
Deduct: Expenditures from parliamentary appropriations—		
Operations	135,609,000	119,992,000
Transportation	65,952,000	63,935,000
Administrative, financial services, etc.	5,334,000	5,417,000
	206,895,000	189,344,000
Excess of expenditure over revenue	\$ 6,121,000	\$ (3,487,000)

This recorded excess of expenditure over revenue of \$6,121,000 did not, however, take into consideration estimated costs of services provided by other departments, including accommodation provided by the Department of Public Works estimated at \$25,859,000, contributions to the Public Service Superannuation Account and to employee surgical-medical insurance premiums by the Department of Finance estimated at \$8,570,000, accounting and cheque issue services provided by the Comptroller of the Treasury, \$87,000, and employee compensation payments by the Department of Labour, \$231,000, a grand total of \$35,247,000. Neither were credits for mail franked by and sent to government departments and Members of Parliament, estimated at \$3,860,000, included. Taking these into account the operating deficit would be \$37,508,000 rather than \$6,121,000 as shown.

169. *Public Printing and Stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery was charged with the execution of printing, lithographing or work of like nature and the procurement and distribution of paper, books and other articles of stationery required

by the Senate, the House of Commons and the various government departments. The Department was also made responsible for the sale of all books or publications issued by order of either or both Houses of Parliament or by any government department. The expenditures are provided for through the medium of the Queen's Printer's Advance (a statutory working capital advance) and by annual parliamentary appropriations.

During the year under review the Governor in Council, pursuant to the Public Service Rearrangement and Transfer of Duties Act, transferred to the Department of Defence Production the control and supervision of the Procurement, Purchasing and Stores Branch, the Production Branch, the Outside Printing Production Branch, and the supporting administrative and financial services contained in a number of branches of the Department of Public Printing and Stationery. Funds in respect of the transferred activities provided through appropriations or by statute were also transferred to the Department of Defence Production. Responsibility for the procurement of print for books and publications remains with the Department of Public Printing and Stationery.

The basic expenses of the operations transferred to the Department of Defence Production are charged to the Queen's Printer's Advance under section 37 of the Public Printing and Stationery Act. The Advance is credited with the value of printing work executed for and charged at "factory" cost to the various departments, and also for the value of stationery supplied and charged to them at "purchase" cost. The Act provides that the aggregate amount of the charges to the Advance after deducting therefrom any amounts due to it shall not exceed \$4 million at any time. As at March 31, 1964 the balance of the Advance was \$5,759,000 and the accounts receivable totalled \$3,772,000, so that the effective balance for the purposes of the Act was \$1,987,000, a decrease of \$372,000 from the corresponding figure of \$2,359,000 at the end of the preceding year.

The following summary shows the operating results of the Queen's Printer's Advance for the year ended March 31, 1964 together with comparable figures for the preceding year:

	Year ended March 31	
	1964	1963
Revenue	\$19,639,000	\$18,990,000
Expenditure—		
Direct materials	12,010,000	11,954,000
Direct labour	4,244,000	3,857,000
Other factory expenses	3,085,000	3,074,000
Work sub-contracted	196,000	373,000
Increase in inventories	(163,000)	(192,000)
	19,372,000	19,066,000
	267,000	(76,000)
Discounts earned, etc.	9,000	9,000
Excess of revenue over expenditure	\$ 276,000	\$ (67,000)

The expenditure shown above does not include the value of services and facilities including light, power, heat, amortization of cost of buildings and equipment, etc., provided free of charge by other government departments and through the medium of the Department's own appropriations and those of the Department of Defence Production.

In addition to the expenditures recorded through the Queen's Printer's Advance, other expenditures were charged to a number of appropriations. As mentioned above, in some instances outlay was made by the Department of Defence Production through funds transferred. In order that a comparison of the total expenditures for the year under review may be made with those for the preceding year, the expenditures made by that Department have been consolidated with those of the Department of Public Printing and Stationery as follows:

	Year ended March 31	
	1964	1963
Departmental administration—		
Department of Defence Production	\$ 636,000	
Department of Public Printing and Stationery	141,000	
	<hr/>	<hr/>
	\$ 777,000	\$ 771,000
Purchasing, stationery and stores—		
Department of Defence Production (largely for salaries and wages of procurement and stationery stores personnel and repairs to office equipment)	1,228,000	1,201,000
Distribution of official documents—		
Department of Public Printing and Stationery	690,000	685,000
Printing and binding official documents for sale and distribution to departments and the public—Department of Public Printing and Stationery	1,126,000	1,012,000
Printing of Canada Gazette—		
Department of Public Printing and Stationery	149,000	169,000
Printing and binding the annual Statutes—		
Department of Public Printing and Stationery	40,000	26,000
Plant equipment and replacements—		
Department of Defence Production	83,000	106,000
Reimbursement of the Queen's Printer's Advance for the value of stores which have become obsolete, unserviceable, lost or destroyed	—	7,000
	<hr/>	<hr/>
	\$ 4,093,000	\$ 3,977,000
	<hr/>	<hr/>

For the year ended March 31, 1964, revenue totalled \$1,864,000, most of which resulted from sales of publications to the general public. This figure excludes the surplus of \$156,000 in the Queen's Printer's Advance—representing the excess of revenue over expenditure for the year ended March 31, 1964, \$276,000, less the accumulated deficit of \$120,000 for the two preceding years—which was transferred to the Receiver General in May 1964.

170. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Revolving fund accounts are maintained for the recording of transactions in gold, silver and other metals acquired by the Mint for the purpose of its operations. The

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following is a summary of the charges and credits to these accounts during the year under review in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1964	1963
Inventories at beginning of year	\$27,212,000	\$20,655,000
Add: Purchases during year	98,296,000	91,020,000
Gold	14,782,000	16,914,000
Silver	1,675,000	1,408,000
Other metals	114,753,000	109,342,000
Gold revaluation	(1,000)	218,000
	<u>141,964,000</u>	<u>130,215,000</u>
Deduct: Sales	96,072,000	91,121,000
Gold	20,176,000	15,853,000
Silver coin at face value	5,513,000	4,961,000
Other coin at face value	86,000	49,000
Silver bullion	17,000	—
Sundry	<u>121,864,000</u>	<u>111,984,000</u>
	20,100,000	18,231,000
Add: Transfers to revenue	9,276,000	8,920,000
Gain on coinage operations	25,000	61,000
Gold refining gain	<u>9,301,000</u>	<u>8,981,000</u>
Inventories at end of year	<u>\$29,401,000</u>	<u>\$27,212,000</u>

The transfers to revenue of \$9,301,000 from the revolving fund accounts and of other revenue of \$1,323,000, making a total of \$10,624,000 (\$9,706,000 in 1962-63) for the year ended March 31, 1964, are recorded in the Public Accounts as revenue of the Department of Finance. Offset against this were expenditures totalling \$2,611,000 charged to parliamentary appropriations under the Department of Finance as follows: administration, operations and maintenance, \$2,192,000 (\$1,890,000 in 1962-63); and construction or acquisition of equipment, \$419,000 (\$62,000 in 1962-63).

The net result of these credits and charges was an excess of revenue over expenditure of \$8,013,000 compared with \$7,754,000 in 1962-63, an increase of \$259,000. These recorded results do not, however, take into consideration interest on funds employed or charges for services provided by other departments including accommodation provided by the Department of Public Works, the services of the R.C.M.P., contributions to the Public Service Superannuation Account, employee surgical-medical insurance premiums and accounting and cheque issue services by the Department of Finance and employee compensation payments by the Department of Labour.

In the year under review there was a gain in coinage revenue of \$356,000 with a decrease of \$44,000 in sundry revenue. Service fees increased by \$606,000 due to an

unprecedented increase in the sales of coin sets. Expenditures increased by \$659,000 due mainly to salary increases, and purchase of new equipment.

Special Audits and Examinations

171. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes: Army Benevolent Fund Board, Atlantic Development Board, the Canada Council, the Custodian, Economic Council of Canada, Exchange Fund Account, Municipal Development and Loan Board, National Gallery of Canada, National Productivity Council, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Royal Canadian Mint stocks, Unemployment Insurance Fund and Yukon Territorial Government.

172. *Army Benevolent Fund Board.* The accounts of the Board were examined for the year ended March 31, 1964 pursuant to section 11 of the Army Benevolent Fund Act, R.S., c. 10, as amended, and the relative report was addressed to the Chairman and Members of the Army Benevolent Fund Board constituted by the Act, with a copy being provided to the Minister of Veterans Affairs.

During the year, receipts amounted to \$229,000 of which \$217,000 was derived from interest on funds on deposit with the Receiver General and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$462,000 consisting of \$371,000 in grants to or on behalf of World War II veterans and \$91,000 for service and administrative expenses. The latter amount was after deducting a grant of \$18,000 provided from an appropriation of the Department of Veterans Affairs and a fee of \$35,000 received from the Canadian Army Welfare Fund for the management of the financial program of that Fund.

After absorbing the excess of disbursements over receipts in the amount of \$233,000, the balance at credit of the Fund at March 31, 1964 was \$5,781,000, represented by \$5,521,000 on deposit with the Receiver General, \$256,000 invested in Government of Canada bonds and \$4,000 of accountable advances and prepaid expenses.

173. *Atlantic Development Board.* This Board was established by the Atlantic Development Board Act, 1962-63, c.10. Under the provisions of the Act, as amended 1963, c. 5), the objects of the Board are to inquire into and report to the responsible Minister upon programs and projects for fostering the economic growth and development of the Atlantic region of Canada, and to consider, report and make recommendations to the Minister concerning programs and projects.

Funds for the Board's 1963-64 expenses were provided by a parliamentary appropriation (Secretary of State Vote 40a). Expenditures during the year amounted to \$196,000

of which \$104,000 represented the cost of technical and economic surveys and studies and \$92,000 represented administrative costs.

The amendment to the Act in 1963 authorized the establishment of an Atlantic Development Fund as a separate account in the Consolidated Revenue Fund for the purpose of financing or assisting in financing undertakings and the carrying out of programs and projects that, in the opinion of the Board, will contribute to the growth and development of the economy of the Atlantic region and for which satisfactory financing arrangements are not otherwise available, the aggregate payments into the Fund not to exceed \$100 million.

Up to March 31, 1964 no amount had been credited to the Atlantic Development Fund, but during the year the Cabinet approved recommendations for contributions totalling \$41,100,000 from the Fund to provide capital assistance in the case of two hydro-electric projects and two fish processing development projects.

174. *The Canada Council.* The Council was established under the Canada Council Act, 1957, c.3. "to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences".

A report on the audit of the Council's accounts for the year ended March 31, 1964 was made to the Council and to the Secretary of State of Canada, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act (except for capital assistance grants to universities in respect of building construction projects which are made from the University Capital Grants Fund). Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the results of the Endowment Fund operations for the year ended March 31, 1964, together with comparable figures for the preceding year:

	Year ended March 31	
	1964	1963
Surplus at April 1	\$ 83,000	\$ 273,000
Income—interest and dividends	3,086,000	3,011,000
	<hr/> 3,169,000	<hr/> 3,284,000
Expenditure—		
Grants	2,586,000	2,721,000
Canadian National Commission for UNESCO	82,000	78,000
Administrative and other expenses	419,000	402,000
	<hr/> 3,087,000	<hr/> 3,201,000
Surplus at March 31	<hr/> \$ 82,000	<hr/> \$ 83,000

A University Capital Grants Fund of \$50 million was established by the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants may be paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year ended March 31, 1964, together with comparable figures for the preceding year:

	Year ended March 31	
	1964	1963
Balance at April 1	\$25,944,000	\$30,333,000
Add:		
Interest earned on investments	1,111,000	1,521,000
Net profit on disposal of securities	270,000	365,000
	27,325,000	32,219,000
Deduct:		
Authorized grants	15,826,000	6,275,000
Balance at March 31	\$11,499,000	\$25,944,000

Prior to the year under review, the allocation of interest earned and profits realized from the investment portfolio of the University Capital Grants Fund was left in abeyance because of conflicting legal opinions respecting the procedure which should be followed. In the 1963 Report (paragraph 173) reference was made to a resolution of the Council in August 1963 that an allocation and distribution be made on the basis of the 1956 census, using the "hotch-pot" or trust fund approach for the purpose. Subsequently an allocation was made of interest and profits amounting to \$15,130,000 which had accumulated in the Fund from its inception to September 30, 1963 and the institutions concerned were invited to make applications for their entitlement.

As we continued to regard the method of distribution as not in accordance with subsection (2)(b) of section 17 of the Canada Council Act, my report for the year ended March 31, 1964 was qualified to that extent. On July 28, 1964 the Public Accounts Committee again examined this matter with the Chairman and members of the Council who were in attendance. As a result, in its Sixth Report 1964, the Committee recorded the view that the Council's approach to the matter was a reasonable one, but because of the conflicting opinions held as to whether the action taken was ultra vires of the Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund (see Appendix 1, item 39).

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms upon which they are made available to the Council. In February 1963 as a result of accepting a gift, referred to in the 1963 Report (paragraph 73), of approximately \$4,250,000 from an anonymous donor, which is payable over the

next several years, the Council approved of the preparation of a separate balance sheet, designated "Special Funds", to account for all moneys or property received pursuant to section 20. This balance sheet has two sections the first of which records the receipt and disbursement of comparatively small gifts which are accounted for within the Endowment Fund. The second section of the balance sheet relates to the following funds from which only the income may be disbursed for the purposes designated:

1. The amount of \$1,079,000 received in March 1963 with respect to the anonymous gift of \$4,250,000, the income from which is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada.
2. A gift of \$600,000 received from the Molson Foundation in September 1963 to establish a capital fund referred to as the Molson Prize Fund, the income from which is to be used for making cash awards of \$15,000, normally two in each year, to authors or creators of works or to persons who have rendered service to Canada in the fields of the arts, humanities and social sciences which will enrich the cultural or intellectual heritage of the nation, or make a noteworthy contribution to understanding and unity among Canadians of French and English descent.

For investment purposes the two funds have been combined and are represented by one portfolio. The income of \$74,000 produced by the investments for the year under review was allocated to the two funds according to the ratio which each fund, multiplied by the days held during the year, bore to the total of the two resulting products. A summary of the operating results for the year ended March 31, 1964 follows:

	Special Scholarship Fund	Molson Prize Fund	Total
Surplus at April 1, 1963	\$ 3,000	\$ —	\$ 3,000
Income—interest and dividends	57,000	17,000	74,000
	60,000	17,000	77,000
Expenditure—			
Grants and awards	56,000	15,000	71,000
Administrative expenses	1,000	1,000	2,000
	57,000	16,000	73,000
Surplus at March 31, 1964	\$ 3,000	\$ 1,000	\$ 4,000

Although two Molson Prize Fund awards of \$15,000 each were made, payment was conditional upon the Fund producing the necessary income. The item of \$15,000 shown above for the Molson Prize Fund covers the first instalment of \$7,500 paid on each award. The second instalment of the same amount has since been paid.

175. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed

Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him" by virtue of the Regulations. Formerly the Under-Secretary of State, and now, effective from May 15, 1964, the Deputy Registrar of Canada acts as the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1963 was made to the Secretary of State.

The book value of the assets vested in the Custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$287,000 to \$3,851,000 at December 31, 1963. A transfer of \$350,000 to the Minister of Finance for the War Claims Fund, and releases of assets valued at \$265,000 to former owners or their beneficiaries or other rightful claimants, offset in part by an appreciation of \$339,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations referred to above, the Custodian is authorized to charge against all property investigated, controlled or administered by him, whether it has vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

All fees and any income received from vested assets which consist of, or are converted into, cash or Government of Canada bonds are credited to the Custodian's administration account, from which all expenses of the office are paid. As a result, from September 2, 1939 to December 31, 1963 the Custodian had accumulated a surplus of \$4,573,000—largely invested in Government of Canada bonds.

The following is a summary of the income and expense of the Custodian for the year ended December 31, 1963 together with comparable figures for the preceding year:

	Year ended December 31	
	1963	1962
Income—		
Fees on assets released from administration	\$ 9,000	\$ 23,000
Interest on investments and bank deposits	206,000	207,000
Other income	9,000	8,000
	<u>224,000</u>	<u>238,000</u>
Expense—		
Salaries	108,000	110,000
Other expense	11,000	8,000
	<u>119,000</u>	<u>118,000</u>
Surplus	\$ <u>105,000</u>	\$ <u>120,000</u>

A substantial decrease in the value of assets released in 1963 as compared with 1962 contributed to the significant reduction in income from fees on assets released from administration. The increase of \$3,000 for other expense is the result of a decision to write off the unamortized cost of office furniture and equipment as a charge to 1963 operations—the cost of future acquisitions will be charged as an expense of the year in which the expenditure is incurred.

176. *Economic Council of Canada.* The Economic Council of Canada was established on August 2, 1963 by the Economic Council of Canada Act, 1963, c. 11, which directs the Council to advise how Canada can achieve the highest possible levels of employment and efficient production, in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards. With the coming into effect of the Economic Council of Canada Act, the legislation establishing the National Productivity Council was repealed and the Economic Council was given responsibility for carrying on the duties formerly assigned to the National Productivity Council, namely promoting and expediting advances in productive efficiency in various aspects of Canadian economic activity. The Economic Council consists of 28 members appointed by the Governor in Council: a chairman and two directors who serve on a full-time basis and are remunerated at rates fixed by the Governor in Council and 25 other members broadly representative of different sectors and groups in the Canadian economy who serve without remuneration. The head office of the Council is in Ottawa.

Although the Economic Council of Canada came into being in August 1963, the 25 members who serve on a part-time basis were not appointed until December. Accordingly, activities for the year ended March 31, 1964 were largely confined to the last three months of the fiscal year. During that period, two meetings were held, office space was obtained and staff was recruited. The following is a summary of the expenses of the Council for the period from its establishment on August 2, 1963 to March 31, 1964:

Salaries	\$ 115,000
Grants to work study schools	23,000
Travel	18,000
Other	14,000
	<hr/>
	\$ 170,000
	<hr/>

These expenses were provided to the extent of \$165,000 by parliamentary appropriation and the remaining \$5,000 by a transfer from the National Productivity Council under authority of section 22 of the Economic Council of Canada Act which directs that any balance standing to the credit of the National Productivity Council after payment by it of any debts and obligations shall be paid by the National Productivity Council to the Receiver General to be held and applied toward the payment of expenses of the Economic Council.

177. *Exchange Fund Account.* The Exchange Fund Account, first established by the Exchange Fund Act, 1935, c. 60, and continued by the Foreign Exchange Control Act,

1946, c. 53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The purpose of the Account is "to aid in the control and protection of the external value of the Canadian monetary unit".

The accounts of the Exchange Fund for its financial year ended December 31, 1963 were examined pursuant to section 27 of the Currency, Mint and Exchange Fund Act and the relative report was addressed to the Minister of Finance in accordance with established practice. The section requires that a special certificate be given annually to Parliament, and in accordance with that requirement it is now certified that the transactions in connection with the Account for the year ended December 31, 1963 have been in accordance with the provisions of the Act, and that the records showed truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the year ended December 31, 1963 compared with the transactions in the previous year:

	Year ended December 31	
	1963	1962
Balance at January 1	\$ 2,686,227,000	\$ 2,162,606,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of earnings	35,227,000	32,606,000
	<hr/> 2,651,000,000	<hr/> 2,130,000,000
Add:		
Advances (net) received during the year	38,000,000	521,000,000
Earnings on investments during the year (to be paid into the Consolidated Revenue Fund)	62,594,000	35,227,000
	<hr/> \$ 2,751,594,000	<hr/> \$ 2,686,227,000
Balance at December 31		
Represented by:		
Canadian dollars	\$ 78,000	\$ 160,000
United States dollars and securities	1,898,188,000	1,941,310,000
Gold	883,500,000	763,169,000
Suspense account	110,000	—
	<hr/> 2,781,876,000	<hr/> 2,704,639,000
Surplus	30,282,000	18,412,000
	<hr/> \$ 2,751,594,000	<hr/> \$ 2,686,227,000

It has been the practice in past years to value the holdings at December 31 in terms of the Canadian dollar at the closing market rate of exchange but this practice was discontinued during the year under review in favour of valuing the holdings in terms of the Canadian dollar at par of exchange. As a result, the United States dollar holdings were valued at \$1.08108 (par) at December 31, 1963 and the surplus account is \$366,662 greater than if the market rate of \$1.0809 at December 31, 1963 had been used.

It should be noted that the surplus of \$30,282,000 at December 31, 1963 would have been considerably larger at that date if losses accumulated in the Account, representing cost of exchange management since its inception, had been written off. In our 1962 Report and in paragraph 175 of the 1963 Report we recommended that provision be made

for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluations of holdings of gold and foreign currencies.

The Minister of Finance in a statement to the Public Accounts Committee (Minutes of Proceedings No. 16, July 21, 1964) concluded as follows:

"It remains to deal with the request of the Committee for comment on the desirability of writing off the deficit or surplus and of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluation of holdings.

"It is clear from the above description that the balance in the surplus account at December 31, 1963 results from a variety of causes, including the several revaluations as well as trading operations. I propose that this be left in the Fund, where it may serve as a modest reserve against any possible future revaluation losses.

"I believe that in future it is desirable to distinguish between the profits and losses arising from trading and investment on the one hand and profits and losses arising from revaluations. I propose that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year should be transferred to the Consolidated Revenue Fund.

"I would not propose that any decision now be taken to transfer to the Consolidated Revenue Fund any future profits or losses at our year-ends arising from changes in exchange rates . . .

"Authority will be required from Parliament to recoup the Exchange Fund for any deficit in accordance with the course of action I have proposed and some change in the law is desirable to make clear the authority to transfer profits or surpluses to the Consolidated Revenue Fund".

In its Sixth Report 1964 (see Appendix 1, item 31) the Public Accounts Committee noted the foregoing and stated as follows:

"The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund.

"The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

"The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give

immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account".

178. *Municipal Development and Loan Board.* This Board was established by the Municipal Development and Loan Act, 1963, c.13. The purpose of the Act is to promote increased employment in Canada through financial assistance by way of loans to municipalities to augment or accelerate municipal capital works programs.

Funds for the Board's 1963-64 requirements were provided by a parliamentary appropriation (Finance Vote 38e). Expenditures for the period from September 5, 1963 to March 31, 1964 amounted to \$59,660, representing administrative costs. No loans were disbursed during 1963-64 but 132 loans to provinces and municipalities amounting to \$45.3 million were approved by the Board.

179. *National Gallery of Canada.* The Gallery was incorporated under the National Gallery Act, 1913, c.33, now R.S., c.186. Its objects and powers comprise the development, maintenance, care and management of the national gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

Pursuant to section 9 of the National Gallery Act, the Gallery's accounts for the year ended March 31, 1964 were examined and a report was addressed to the Secretary of State. A more detailed report to the Board of Trustees included our comments and recommendations concerning various administrative weaknesses some of which had been referred to in previous reports but are not yet entirely corrected. A budget and cost accounting system to provide control over budgeted funds on a functional basis and to supply essential cost information on the state of individual program activities was put into operation in April 1964.

The following is a comparative summary of expenditures for the past two years:

	Year ended March 31	
	1964	1963
Administration, operation and maintenance—		
Salaries and wages	\$ 351,000	\$ 348,000
Professional and special services (including security personnel)	185 000	155,000
Other	290,000	308,000
	<hr/>	<hr/>
Purchases of works of art	826,000	811,000
	323,000	138,000
	<hr/>	<hr/>
	\$ 1,149,000	\$ 949 000
	<hr/>	<hr/>

The operating expenses of the National Gallery are met largely from annual parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the National Gallery Special Operating Account are also used to acquire works of art and \$10,000 was expended for this purpose in 1964.

As stated in last year's Report (paragraph 176) and in the 1962 Report, parliamentary control may be weakened by the supplementing of specific appropriations by expenditures from the National Gallery Special Operating Account, and by crediting to the Special Operating Account proceeds from the sale of Gallery publications, fees from exhibitions and lectures, and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.

180. *National Productivity Council.* The Council was established by the National Productivity Council Act, 1960-61, c.4, with the objects of promoting and expediting continuing improvement in productive efficiency in the various aspects of the Canadian economy.

The Economic Council of Canada Act, 1963, c.11, enacted on August 2, 1963, provided for the repeal of the National Productivity Council Act and the payment of any amounts standing to the credit of the National Productivity Council, after payment of the Council's debts and obligations, to the Receiver General to be held and applied toward the payment of the expenses of the Economic Council of Canada. Accordingly the balance of \$5,000 remaining at the credit of the National Productivity Council at March 31, 1964, after payment by the Council of all its debts and obligations, was paid to the Receiver General in April 1964.

The following is a comparative summary of the income and expense of the National Productivity Council for the last two years:

	Year ended March 31	
	1964	1963
Income—		
Statutory grant	\$ 150,000	\$ 150,000
Donations	52,000	86,000
Government contributions under section 16 of the Act	13,000	83,000
Interest	2,000	5,000
	<hr/> 217,000	<hr/> 324,000
Expense—		
Salaries and employee benefits	108,000	131,000
Professional services	32,000	14,000
Travel	31,000	53,000
Donations to approved projects	23,000	119,000
Office equipment and stationery	21,000	9,000
Conference and seminar expenses	15,000	13,000
Publicity	11,000	18,000
Telephone, telegraph, express and postage	8,000	13,000
Rent and accounting services	7,000	7,000
Printing	6,000	6,000
Travel and living expenses of Council members	4,000	15,000
Miscellaneous	2,000	2,000
	<hr/> 268,000	<hr/> 400,000
	<hr/> 51,000	<hr/> 76,000

	Year ended March 31	
	1964	1963
Deduct—		
Credits for accommodation and accounting services provided by the Government of Canada (recorded above)	7,000	7,000
Travel and living expenses of Council members provided by statutory appropriation (recorded above)	4,000	15,000
	<u>11,000</u>	<u>22,000</u>
Excess of expense over income	\$ 40,000	\$ 54,000

The statutory grant was received under the provisions of section 15 of the National Productivity Council Act as the third payment authorized under this section, which directed the Minister of Finance to pay to the Council, from the Consolidated Revenue Fund, for each of the first three years after the coming into force of the Act, the amount of \$150,000.

Section 16 of the Act provided that, where the Council, during the first three years of its existence, acquired by gift, donation or bequest any asset from a person other than Her Majesty, the Minister of Finance should pay out of the Consolidated Revenue Fund, in addition to the amount paid under section 15 in any year, an amount equal to the value of the property so acquired. During the year the Council received donations totalling \$52,000, of which \$13,000 was received from sources other than Her Majesty before the repeal of the National Productivity Council Act and was accordingly matched by contributions by the government, and the remaining \$39,000 was not eligible for matching contributions because it was received either after the repeal of the Act or from Her Majesty in right of several provinces.

In our Report last year, we noted that a report of all proceedings under the National Productivity Council Act for the year ended March 31, 1963 which section 19 of the Act directed should be submitted by the Chairman of the Council to the Ministers of Trade and Commerce and of Labour within three months after the close of the fiscal year and laid before Parliament within fifteen days after its receipt, had been submitted to the Minister of Trade and Commerce on August 2, 1963 but had not been tabled in Parliament before adjournment on that date. The Council's report was laid before Parliament on April 15, 1964.

181. *Public Printing and Stationery stores.* Section 34(2) of the Public Printing and Stationery Act, R.S., c.226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year under review, as in prior years, such tests were made as we considered necessary to establish that the controls exercised by the Department were operating satisfactorily. A report on the examination was made to the Minister of Defence Production.

During the year there was a change in accounting procedure with respect to printing unit inventories which for the fiscal year 1963-64 and future years are to be recorded as work in process. The inventories of stationery, printing materials and supplies held by

AUDITOR GENERAL'S REPORT

the Department totalled \$2,547,000 at March 31, 1964 and compared with inventories at the end of the preceding year, adjusted to the new basis, as follows:

	As at March 31	
	1964	1963
Stationery supplies	\$ 471,000	\$ 705,000
Typewriter and office machine parts	154,000	152,000
Paper	468,000	398,000
Printing and maintenance supplies	423,000	473,000
Printing sub-stores—main plant	110,000	117,000
Miscellaneous	47,000	72,000
Work in process	874,000	677,000
	<u>\$ 2,547,000</u>	<u>\$ 2,594,000</u>

182. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c.33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six members is responsible for the management and administration of the Fund. As required by the Act, the National Research Council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose head office is in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1964, which contained no qualification, was made to the Board and to the Prime Minister as required by the Act.

The Act provided \$1,000,000 for the Fund and also permits the Board to accept gifts for its purposes. The following is a summary of the Fund's transactions for the year ended March 31, 1964 together with comparable figures for the preceding year:

	Year ended March 31	
	1964	1963
Balance at April 1	\$ 1,049,000	\$ 1,003,000
Add:		
Earnings on investments	58,000	57,000
Gifts	1,000	1,000
	<u>59,000</u>	<u>58,000</u>
	1,108,000	1,061,000
Deduct:		
Awards approved during year	32,000	12,000
Balance at March 31	<u>\$ 1,076,000</u>	<u>\$ 1,049,000</u>

Two categories of awards have been approved by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases

of children, and range in value from \$3,500 to \$5,000 per annum. During the year under review one renewal and six new fellowships totalling \$32,000 were approved. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 for each of the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without recourse to the Fund. No appointments were made under this category during the year but the Fund continues to support three appointees of prior years. At March 31, 1964 the outstanding liability in respect of these appointments, \$65,000, was included in the total provision of \$98,000 for awards approved, appearing in the balance sheet of the Fund at that date.

183. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of the departmental revenue and expenditure and are examined as such. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315, requires that the Auditor General shall "at least once in each year inspect the store of bullion and coin at the Mint". Such an inspection was made as at February 29, 1964 and a report thereon was made to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at February 29, 1964 amounted to \$24,198,000 comprising: gold \$3,395,000, silver \$20,480,000, nickel \$99,000, bronze \$224,000.

184. *Unemployment Insurance Fund.* The Unemployment Insurance Act 1955, c. 50 (superseding 1940, c. 44) is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. Its purpose is to provide for insurance against unemployment and to maintain a national employment service. The Unemployment Insurance Fund was established as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers and Government of Canada contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, are credited—and to which benefits and other payments under the Act are charged.

Financial statements showing the state of the Fund at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Commission. In our 1960 and subsequent Reports attention was drawn to the fact that the Act does not provide for these financial statements to be audited. The Public Accounts Committee made reference to this in its Fifth Report 1961, Fourth Report 1963 and Fourth Report 1964 (see Appendix 1, item 14) recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended, the Commission has submitted its financial statements for the past three years to the Audit Office for examination, and the statements for the year ended March 31, 1964, together with my report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 22-22 to 22-24.

AUDITOR GENERAL'S REPORT

The following is a comparative summary of the Fund's transactions for the past three years, together with the year-end balances at the credit of the Fund:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Receipts—			
Contributions from employers and employees	\$277,789,000	\$ 286,430,000	\$ 296,586,000
Contributions from Government of Canada ..	55,558,000	57,286,000	59,317,000
Other income	6,267,000	2,570,000	1,172,000
	<u>339,614,000</u>	<u>346,286,000</u>	<u>357,075,000</u>
Disbursements—			
Benefit payments	454,740,000	403,191,000	365,655,000
Interest on advances	2,961,000	—	238,000
	<u>457,701,000</u>	<u>403,191,000</u>	<u>365,893,000</u>
Excess of disbursements over receipts	\$ 118,087,000	\$ 56,905,000	\$ 8,818,000
Balance at credit of the Fund	<u>\$ 66,598,000</u>	<u>\$ 9,693,000</u>	<u>\$ 875,000</u>

The annual deficits shown above do not include the administrative expenses of the Commission which are financed out of parliamentary appropriations to the Commission (Department of Labour Vote 50) in accordance with section 10 of the Act. These expenses amounted to \$48,684,000 in 1963-64 compared with \$48,034,000 for the preceding year. Also not included are: the value of accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation Account, accounting services provided by the Comptroller of the Treasury and other services provided by government departments, all of which were estimated at \$10,034,000 for 1963-64 as against \$9,754,000 for 1962-63.

Costs totalling \$393,000 associated with a new program of registration of employees begun during 1963-64 to replace an inadequate system of numbering persons insured under the Unemployment Insurance Act and designed, as well, to serve the needs of the proposed Canada Pension Plan, accounted for a major portion of the increase of \$650,000 in administrative expenses in the year. The remainder was largely the result of an increase of \$240,000 in commissions paid to the Post Office Department arising out of an upward adjustment of commission rates to meet the increased costs of selling unemployment insurance stamps and meter impressions.

The new registration program is to be completed in 1964-65 and it is estimated that its total cost to the Commission will be \$2,500,000. Because early adoption of a Canada Pension Plan appeared imminent, the Commission, in conjunction with its program of assigning new numbers to all employees insured under the Act, was requested to solicit the registration of non-insured employees as well. The cost of processing these additional registrations, together with the extra publicity costs arising out of the need to acquaint this segment of the public with the program, has resulted in costs being charged to the Unemployment Insurance Commission appropriation for administrative expenses in excess of those required to carry out the purposes of the Unemployment Insurance Act.

In 1963-64, for the seventh consecutive year, disbursements from the Unemployment Insurance Fund exceeded receipts although the excess of disbursements amounted to only \$8,818,000 compared with \$56,905,000 in 1962-63 and \$118,087,000 in 1961-62. This substantial reduction in the excess of disbursements over receipts for the third successive year is attributable to fewer benefit payments and shorter benefit periods although there has been a slight increase in the average weekly benefit paid in each year. Comparisons follow:

	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Average monthly percentage of the insured population drawing benefit	9.3%	8.1%	7.2%
Number of initial benefit claims allowed	1,370,738	1,292,476	1,197,421
Average number of benefit weeks paid	14.3	13.4	13.1
Average weekly benefit rate paid	\$ 24.02	\$ 24.27	\$ 24.49

There was an occasion during the year when, for the first time since its inception, the resources of the Fund were exhausted. When this happened the amounts required to discharge the Fund's liabilities were obtained by Government of Canada loans which were authorized to a maximum of \$55,000,000 by Governor General's special warrants dated April 1 and May 2, 1963. Borrowings reached a maximum of \$35,000,000 on May 31 and were fully repaid by August 9, 1963.

All security transactions of the Fund in the year under review were in a special Government of Canada issue which is redeemable at par subject to 30 days' prior notice, and thus no gains or losses on sales were incurred.

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Prompt attention was given to all audit observations raised and corrective action was taken where called for. Briefly, our examinations are designed to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is likewise examined. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants, contained in the records of the Commission, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff.

No attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each insured worker is credited with the proper contributions. These records are verified by the Commission's internal audit division.

185. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, as amended, provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the government of the Territory in those fields normally within provincial jurisdiction.

AUDITOR GENERAL'S REPORT

The accounts relating to the receipt and expenditure of territorial funds and of money appropriated by Parliament for the Territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the Act. There is no requirement, however, for the preparation of annual financial statements, nor for their certification by the Auditor General as the statutory auditor. The Department of Northern Affairs and National Resources has advised that it proposes to recommend amending legislation to this effect. Pending the enactment of such legislation, the Commissioner has submitted for audit examination the annual financial statements prepared by the Territory for publication in its Public Accounts, and we have agreed to furnish audit certificates with respect to these statements.

The following is a summary of expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1964, with comparable amounts for the preceding fiscal year:

	Year ended March 31	
	1964	1963
Expenditure—		
Capital projects	\$ 2,721,000	\$ 3,817,000
Education	1,358,000	1,153,000
Roads, bridges and public works	1,009,000	961,000
Yukon Hospital Insurance Service	683,000	744,000
Health and welfare	655,000	480,000
Justice	336,000	330,000
Municipal and area development	244,000	277,000
Loan interest	206,000	56,000
Other expenditure	823,000	581,000
	<u>8,035,000</u>	<u>8,399,000</u>
Revenue—		
Federal grants—		
Operating	1,609,000	1,252,000
Loan amortization	314,000	83,000
	<u>1,923,000</u>	<u>1,335,000</u>
Liquor profits	916,000	922,000
Tax revenue	843,000	703,000
Licence revenue	271,000	259,000
Other revenue	268,000	197,000
	<u>4,221,000</u>	<u>3,416,000</u>
Expenditure recoveries:		
Capital projects	1,397,000	1,730,000
Roads, bridges and public works	617,000	564,000
Education	514,000	450,000
Yukon Hospital Insurance Service	356,000	471,000
Health and welfare	258,000	160,000
Other recoveries	239,000	97,000
	<u>3,381,000</u>	<u>3,472,000</u>
	<u>7,602,000</u>	<u>6,888,000</u>
Excess of expenditure over revenue	\$ 433,000	\$ 1,511,000

Loans payable to the Federal Government at the close of the fiscal year totalled \$6,174,000, an increase of \$743,000 from the previous year's total of \$5,431,000. Under the federal-territorial financial agreement for the five-year period ending March 31, 1967, Canada agreed to make certain annual payments to the Territory in return for which the Territory agreed to refrain from imposing, levying or collecting individual and corporation income taxes and succession duties.

One of the payments for which the agreement provides is in respect of "amortization payments on outstanding loans for capital expenditures". For the year under review an amount of \$314,000 was involved, of which \$170,000 related to interest and \$144,000 was for the purpose of reducing the principal of loans.

A result of this particular annual payment is that Parliament is asked to provide funds to cover payment of interest to the Crown in right of Canada and also to repay amounts previously appropriated for the purpose of making the loans to the Territory.

* * * * *

During the preparation of this Report, my officers and I have been saddened by the sudden passing of Bruce Arnold Millar, C.A., my Audit Director in charge of the audit of defence expenditures for the past ten years. Since he joined the Audit Office twenty-four years ago, Arnold Millar's dedication to his work has commanded the respect of all those with whom he came in contact during his long public service.

In conclusion, I should like to record my appreciation again at this time to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

A. M. HENDERSON,
Auditor General of Canada.

December 9, 1964.

APPENDICES

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with by Executive Action	Appendix 1
Non-Productive Payments noted in the Audit for the Fiscal Year ended March 31, 1964	Appendix 2
Summary of Employees of the Public Service, by Departments, Crown Corporations and Other Instrumentalities Authorized and on Strength as at March 31, 1964, with comparable figures as at March 31, 1963	Appendix 3
Summary of Expenditure by Standard Objects for the Fiscal Year ended March 31, 1964, with comparable figures for the preceding fiscal year	Appendix 4

**RECOMMENDATIONS AND OBSERVATIONS BY THE
STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET
IMPLEMENTED OR DEALT WITH BY EXECUTIVE ACTION**

Fourth Report 1963—presented to the House on December 19, 1963

1. **SECOND CLASS MAIL.** The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it. Reference is made to paragraph 79 of this Report.
2. **DEPARTMENTAL OPERATING ACTIVITIES.** The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course. Reference is made to paragraph 161 of this Report.
3. **INTERNAL FINANCIAL CONTROL.** The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.
4. **UNEMPLOYMENT ASSISTANCE.** The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field. Reference is made to paragraph 67 of this Report.

Fourth Report 1964—presented to the House on July 28, 1964

5. **FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION.** The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as, for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament. Reference is made to paragraph 7 of this Report.

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee had made the following immediate recommendations under paragraph 3:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.
- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.
- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
 - (i) the number of employees actually on the payrolls at the latest date available during the course of the Estimates preparation; and
 - (ii) brief notes explaining proposed major increases in the size of establishments.

In that report the Committee had recommended the adoption of as many of the foregoing improvements as might be practicable in the Main Estimates for 1964-65 and it noted that the revised vote pattern recommended in (a) above had been introduced by the Treasury Board in the Main Estimates for 1964-65 tabled by the Minister of Finance in the House on March 3, 1964.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee. He stated that the Minister of Finance did propose to present the additional staff information recommended by the Committee under (c) above in the Main Estimates commencing with those for the fiscal year 1965-66.

AUDITOR GENERAL'S REPORT

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

The Committee also recommended that consideration be given to referring the departmental Estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House. It believed such a procedure would not only accelerate the work of the House but would contribute materially to improving parliamentary control of public funds before those funds are committed or spent. Reference is made to paragraph 8 of this Report.

7. **LIVING ALLOWANCES TO FEDERALLY-APPOINTED JUDGES.** In its Fourth Report 1963 the Committee had noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It had therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

The Committee recorded that, despite this recommendation, a case had since been noted where a rate of \$100 a day was approved on May 7, 1964 by the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

The Committee reiterated the recommendation made in its Fourth Report 1963 that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

8. **GOVERNOR GENERAL'S SPECIAL WARRANTS.** The Committee recommended that a study be made of Governor General's special warrants. Reference is made to paragraph 45 of this Report.
9. **REMISSION OF SALES TAX ON OLEOMARGARINE.** The Committee was concerned to learn that the undertaking given in 1949 that the Government would submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada had not been carried out. Instead, the authority provided to the Executive by section 22 of the Financial Administration Act had been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

The Committee stated that it does not consider that section 22 of the Financial Administration Act should be used in this way.

10. **ADVERTISING COSTS.** The Committee asked to be informed by the Auditor General in his next follow-up report as to the progress made towards centralizing the negotiation of advertising contracts in the Department of Defence Production.

11. **COST OF GASOLINE USED IN DEPARTMENTAL VEHICLES AT OTTAWA.** The Committee learned from the Secretary of the Treasury Board that an alternative means of effecting savings in the purchase of gasoline was presently being considered. Having in mind the time which had elapsed since the matter was first taken under consideration, the Committee urged the Secretary of the Treasury Board to have the matter finalized at the earliest possible date. The Committee further requested that the Secretary of the Treasury Board provide it in due course with information as to the final decision in this matter and also as to the various alternatives which were considered and, with respect to those which were rejected, the reasons for such rejection.
12. **EDUCATIONAL LEAVE COSTS.** The Committee was pleased to hear the Secretary of the Treasury Board undertake to have a study made of this matter and requested the Auditor General to keep it informed as to the progress being made.
13. **PAYMENT OF MAINTENANCE EXPENSES OF CIVIL SERVICE RECREATIONAL ASSOCIATION CENTRE.** The Committee expressed the opinion that Treasury Board should give consideration to a re-wording of the Estimates to deal with problems arising out of non-governmental organizations receiving financial assistance.
14. **UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION.** The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General. Reference is made to paragraph 184 of this Report.
15. **BOARD OF GRAIN COMMISSIONERS.** In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditure of this activity had exceeded its revenue by more than \$1 million and it requested the Auditor General to keep this matter under review and report thereon to the Committee in due course.

The Committee learned from the Auditor General that he had been advised by the Deputy Minister of Agriculture that effective August 1, 1965, the Board of Grain Commissioners proposes to amend its regulations to increase inspection and weighing fees by 50% in order to enable the Board to meet expenditures involved in providing these services. The Committee noted that the Board had had in mind a revision of these fees for the present crop year but, due to the very narrow margin within which the grain trade was operating under the current international agreements, it was not considered equitable to announce changes after those contracts had been entered into. Reference is made to paragraph 165 of this Report.
16. **OFFICE OF THE AUDITOR GENERAL.** At its request, the Auditor General brought the Committee up to date on the progress of his staff recruitment under the arrangement outlined in the Committee's Fourth Report 1963.

Members of the Committee were disturbed to find that the actual working strength of the Office had only increased from 159 to 161 between November 30, 1963 and April 30, 1964 due to delays which had developed in the procedures of the Civil Service Commission and the Treasury Board in connection with recommendations made by the Commission

that revised rates of pay and new classes be established for the existing auditor strength. Consequently, the Office remained 18 auditors short of the total approved establishment of 179 originally agreed to with the Minister of Finance and the Treasury Board in July 1960, or four years ago.

In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

The Committee believes that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and Crown corporations generally. The Auditor General informed the Committee that the recruitment outlook was currently satisfactory and that, barring any unforeseen developments, he believed that he could fill his presently approved staff establishment under existing arrangements by the end of the year. The Committee therefore asked him to render a further report on this situation in due course.

The Committee noted that amendments to the Financial Administration Act were to be introduced in due course and believed appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office. Reference is made to paragraph 11 of this Report.

Fifth Report 1964—presented to the House on August 5, 1964 Canadian Broadcasting Corporation

17. **ANNUAL REPORT OF THE CORPORATION.** The Committee recommended that the President and Board of Directors of the Corporation take steps to improve the contents of the Corporation's annual report by including therein supplementary financial information concerning its operating and capital budgets and expenditures, for the purpose of providing additional information to Parliament and the public.
18. **STATEMENT OF OPERATIONS.** The Committee recommended that the President and the Board of Directors realign the format of the annual statement of operations of the Corporation in a manner designed to show separately in future for each fiscal year (1) the cost of programs produced without advertising but which were available for sale, and (2) the gross profit or loss derived from the sale of advertising from all sources. Reference is made to paragraph 137 of this Report.
19. **SIZE OF OPERATING AND CAPITAL REQUIREMENTS.** The Committee expressed concern at the levels the Corporation's spending on operating and capital accounts has reached since television was first introduced into the national service in 1955. It commended consideration of this problem as one of the primary and immediate objectives of the Advisory Committee on Broadcasting, formation of which was announced by the government on May 25, 1964.
20. **AUTHORITY OF COMPTROLLER OVER REGIONAL ACCOUNTANTS.** The Committee was disturbed to learn that the authority of the Comptroller over the accounting staffs at the regional centres of the Corporation across Canada is not clearly defined and expressed agreement with the view of the Auditor General that the regional accountants should be responsible directly to the Comptroller at head office in the interests of effective internal financial control. The Committee expressed the opinion that a clear definition of this responsibility

is overdue and was pleased to be advised by the President that it will receive early attention. It requested the Auditor General to advise the Committee when this matter has been settled to his satisfaction. Reference is made to paragraph 137 of this Report.

21. **REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION.** The Committee recommended that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by this Royal Commission in its report No. 19 and that this be done before the estimates of the Corporation are considered by the House. Reference is made to paragraph 137 of this Report.

Sixth Report 1964—presented to the House on October 20, 1964

22. **NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES.** The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop. Reference is made to paragraph 56 of this Report.
23. **LEASE TERMINATION PAYMENTS.** The Committee stated it had been consistently recommending since 1960 that the maximum period for lease termination payments be reduced in future from three months' rent as presently permitted to the equivalent of one month's rent. It expressed the opinion that the present regulation is too susceptible to abuse and constitutes an unnecessary waste of public funds. It again recommended that the regulation be changed to reduce the maximum period to one month but suggested that there be a proviso that payment up to three months may be made in cases of hardship, provided such cases are approved by the Deputy Minister. Reference is made to paragraph 57 of this Report.
24. **UNAUTHORIZED USE OF CROWN-OWNED VEHICLES.** The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.
25. **FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO.** The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town. Reference is made to paragraphs 62 and 122 of this Report.
26. **EDUCATIONAL COSTS INCURRED BY THE DEPARTMENT OF NATIONAL DEFENCE.** The Committee requested the Auditor General to follow this matter up to determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate. Reference is made to paragraph 58 of this Report.
27. **ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES.** The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

28. **PENSION AWARDS EFFECTIVE AT EARLY AGE.** The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages. Reference is made to paragraph 64 of this Report.
29. **DISCRETIONARY AWARDS OF SERVICE PENSIONS.** The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system. Reference is made to paragraph 65 of this Report.
30. **OVERLAPPING OF PENSION BENEFITS.** The Committee was pleased to hear from the Deputy Minister of National Defence that it is his intention when the Canadian Forces Superannuation Act is to be amended to bring this matter to the attention of the Ministers with a view to preventing future incidents of this kind. The Committee requested the Auditor General to keep it informed as to progress made.
31. **ADVANCES TO THE EXCHANGE FUND ACCOUNT.** The Committee recommended that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the surplus of \$30.3 million at December 31, 1963 and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account. Reference is made to paragraph 177 of this Report.
32. **SUPERANNUATION ACCOUNTS.** The Committee suggested that the Auditor General outline to the House in his next Report the adjustments made in carrying out the policy proposed by the Minister of Finance to the House on March 6, 1964. Reference is made to paragraph 123 of this Report.
33. **ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS.** The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed. Reference is made to paragraph 51 of this Report.
34. **PENSION INCREASED BY PAYMENT OF TWO SALARIES.** The Committee stated it expects to see suitable amending legislation introduced in due course to protect the Public Service Superannuation Account from excessive annuity charges and requested the Auditor General to keep it fully informed.
35. **RECIPROCAL TRANSFER AGREEMENTS FOR SUPERANNUATION BENEFITS.** The Committee suggested that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.

36. **INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION.** The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

Reference is made to paragraph 152 of this Report summarizing the results from operations of the National Capital Commission for the year ended March 31, 1964.

37. **ACCOUNTS RECEIVABLE.** The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced.

The Committee expressed agreement with the Auditor General's observation that it would be more informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts each year. Reference is made to paragraph 119 of this Report.

38. **INDIRECT COMPENSATION TO CHARTERED BANKS.** The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

39. **THE CANADA COUNCIL.** The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the

AUDITOR GENERAL'S REPORT

conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

Reference is made to paragraph 174 of this Report summarizing the results from operations of the Canada Council for the year ended March 31, 1964.

Seventh Report 1964—presented to the House on December 7, 1964 Surplus Assets Disposal

40. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.
41. While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.
42. The Committee made the following recommendations:
 - (1) that every effort be made by the executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department;
 - (2) that effective with the fiscal year 1964-65 the Department of National Defence issue a statement listing or summarizing all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal of this equipment by Crown Assets Disposal Corporation; also the value obtained for other surplus material, etc., declared without value to the Corporation, and that such a statement be placed in the Public Accounts of Canada;

- (3) that the preparation of a statement similar to the foregoing be made a requirement for each department and agency of the Government declaring material surplus for the purpose of disposing of such material during each fiscal year and that such statements likewise be placed in the Public Accounts of Canada effective with the fiscal year 1964-65;
- (4) that the sales and inspection procedures of Crown Assets Disposal Corporation be revised with a view to improving sales techniques.

Eighth Report 1964—presented to the House on December 7, 1964

43. **EMPLOYMENT OF PART-TIME DOCTORS BY DEPARTMENT OF VETERANS AFFAIRS.** The Deputy Minister of Veterans Affairs and the Assistant Deputy Minister and Director General of Treatment Services outlined the manner in which part-time doctors are employed by the Department on a negotiated fee basis which permits the doctors at the same time to collect charges from paying patients in the veterans' hospitals. The Committee noted the Auditor General's view that such charges constitute public funds and therefore should be handled in accordance with the requirements of the Financial Administration Act.

The Committee noted that following a meeting between the Department and Treasury Board in June 1963, an Order in Council had been issued allowing part-time doctors to charge paying patients and authorizing them to continue to be paid on the basis of a fee for each half day of attendance or the equivalent thereof. In point of fact, the Department has never paid these doctors on the basis of actual time worked but uses the authority provided in the Order in Council largely as a convenient administrative device by which payments to different doctors could be varied to the degree their services are required in the hospitals. The Director General of Treatment Services agreed that whereas this provided the degree of administrative flexibility desirable from the standpoint of the Department's senior medical officers, it was not compatible with the basis of payment outlined in the Order.

The Committee expressed the opinion that the Executive order should be amended and reworded so as to recognize and deal with the actual operating conditions as they exist and function in the hospitals, and recommended that the Department review the matter further with the Treasury Board with a view to giving effect to such an amendment at an early date.

44. **HOSPITAL CONSTRUCTION GRANTS.** The Committee stated it shared the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

45. **AWARDS UNDER THE PENSION ACT.** The Committee made the following recommendations (see paragraph 89 of this Report) designed to clarify the Act:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

AUDITOR GENERAL'S REPORT

- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

46. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (see paragraph 91 of this Report):

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

47. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made the following recommendations:

- (a) Release of goods under Customs Collector's permission—
that the practice of the Department in releasing goods prior to the passing of a Customs entry and payment of duty be given statutory sanction by means of appropriate amendments made to sections 22 and 79 of the Customs Act.
- (b) Sales of goods unclaimed at Customs—
that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.
- (c) Duties and taxes on surplus United States Government property sold in Canada—
that an amendment be made to the Customs Act or to the Customs Tariff Act to provide statutory authority for the establishment of a composite rate to be applied to the proceeds of all sales in Canada of United States Government property by Crown Assets Disposal Corporation.
- (d) Determination of 'sale price' for sales tax purposes—
that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

48. GENERAL ELECTION EXPENDITURES. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the

1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

49. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended (see paragraph 133 of this Report):

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government acting on the advice of the Auditor General.

50. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. Reference is made to paragraph 6 of this Report.

NON-PRODUCTIVE PAYMENTS NOTED IN THE AUDIT FOR THE FISCAL YEAR ENDED MARCH 31, 1964

(See paragraph 94)

1. SETTLEMENT ARISING OUT OF DISMISSAL OF EMPLOYEE WITHOUT THE AUTHORITY OF THE GOVERNOR IN COUNCIL.—In 1956 an auditor employed by the Unemployment Insurance Commission was notified of his dismissal because of irregularities in his travelling expense accounts. His appeal against dismissal was unsuccessful.

It was a provision of section 52 of the Civil Service Act, R.S. 1952 (since repealed) that no deputy head, officer, clerk or employee "whose appointment is of a permanent nature, shall be removed from office except by authority of the Governor in Council". In this case the Unemployment Insurance Commission neglected to obtain this authorization. Counsel for the dismissed auditor made representations to the Commission claiming damages for illegal dismissal but the claim was rejected.

In May 1962 the dismissed employee submitted a Petition of Right in the Exchequer Court of Canada requesting an order declaring him to be still an employee of Her Majesty and entitled to such pay and allowances as had accrued since July 5, 1956 (the effective date of his dismissal), reimbursement for loss of income of \$22,675, damages of \$25,000 for unlawful interference with his employment with Her Majesty, reimbursement of his costs of and incidental to the petition, and such further and other relief as the Court deemed just.

After duly considering the merits of the claim, the Department of Justice recommended that it would be in the Commission's interests to effect an out of court settlement with the petitioner. With the concurrence of the Commission and upon the dismissed employee submitting a formal release and discharge, payments of \$4,000 to him and \$500 to his solicitors were made in final settlement in February 1964.

2. EXPENDITURES ON HOUSING PROJECTS SUBSEQUENTLY ABANDONED.—In 1961 the Treasury Board approved in principle a proposal to enter into a bulk leasing arrangement with a contractor for the provision and operation of 50 housing units for occupancy by married Army personnel at Carp, Ont. The location was subsequently changed to Almonte, Ont. Treasury Board authority was sought to pay a utility allowance of \$20 per month to each of the eventual tenants. However, the Board did not approve this proposal and in May 1963 the project was abandoned. In the meantime, \$12,391 had been expended for purchase of land and \$6,627 for costs of survey, soil investigations, and services and heating design. The land in question has since been turned over to Central Mortgage and Housing Corporation for disposal.

Similar authority was obtained in 1961 for 15 rental housing units at Perth, Ont. The necessary land was purchased at a cost of \$7,432. Subsequently, when it developed that no acceptable proposal from entrepreneurs could be obtained except at rentals above those for accommodation already available in the area, the project was abandoned. Additional costs relating to site survey, consultant services and plans amounting to \$381 were also absorbed. Central Mortgage and Housing Corporation has been asked to dispose of the land.

In 1962 the Treasury Board approved in principle a proposal to proceed with the development of a rental housing project of 80 units on a bulk lease basis at Red Deer,

Alta., for occupancy by Army personnel. In 1963 the project was abandoned. However, expenditure had been incurred for a land option, site survey and design of services amounting to \$10,257.

3. **ADDITIONAL COST DUE TO FAULTY SPECIFICATIONS AND DRAWINGS.**—In April 1957 a contract for the production in Canada of 7,500 signal flares for the Royal Canadian Air Force at a firm price of \$54,304 was awarded by the Department of Defence Production.

Subsequent to the start of production, the contractor and the R.C.A.F. design authority began to find inaccuracies and conflicts in the drawings and specifications and as production progressed some 24 design changes were required. Later it was determined that the drawings and specifications which had originated in the United States had never been used for production.

The cumulative effect of the design changes increased the cost and extended the period of production during which the product became obsolete for operational use.

In May 1963 the contract was terminated by reducing the quantity from 7,500 to 4,920 flares. The cost of the numerous design changes with attendant delays resulted in payment to the contractor of \$28,868 more than the initial firm price for 7,500 flares.

4. **CONTRACT FOR MAGNETRONS CANCELLED.**—In 1959 a contract for 630 magnetrons for the Royal Canadian Air Force was awarded at a ceiling price of \$454,545 by the Department of Defence Production. A problem arose when certain tubes manufactured to the specifications stipulated in the contract failed in use. The specifications for the magnetrons had been obtained from the United States Air Force and although the design was changed by the Canadian contractor in an attempt to improve the product, some of the magnetrons, which still met the specification requirement, continued to fail in use. After 432 units had been received and accepted, the Air Force refused further deliveries.

The contractor, having manufactured or partly manufactured the 630 units in accordance with the specifications, claimed and was paid the full ceiling price.

5. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAYS, OTTAWA.**—In July 1961 Defence Construction (1951) Limited awarded a firm price contract in the amount of \$179,000, later amended to \$194,312, for the construction of a biological evaluation building for the Defence Research Board at Shirley Bay. The contract was to be completed by the end of November 1961. However, the building was not taken over until May 1962.

During the course of the contract, the work was delayed mainly because of (a) a temporary lack of electrical power, (b) experiments with specified materials which proved to be unsatisfactory, (c) the requirement for all shop drawings to be handled twice, once by Defence Construction (1951) Limited engineering services and once by the consultant, and (d) certain design changes made during the progress of the work. The contractor claimed for additional costs incurred as a result of the above delays and was paid \$8,042 in March 1964.

6. **ADDITIONAL COSTS DUE TO DELAYS IN CONSTRUCTION OF HANGARS AT GREENWOOD, N.S. AND SUMMERSIDE, P.E.I.**—Contracts were awarded to the same construction firm by Defence Construction (1951) Limited in February and March 1959 to construct one anti-corrosion hangar and one readiness hangar at RCAF Station, Greenwood, N.S., and a standard maritime readiness hangar and standard maritime anti-corrosion hangar at RCAF Station, Summerside, P.E.I., at firm prices as amended of \$837,839 and \$829,000 respectively.

Immediately after the award of contracts, a number of modifications to the structural steel design were proposed by the steel fabricator. These modifications which were finally accepted required lengthy consideration. As a result, the first submission of erection diagrams, scheduled for approval by March 20, 1959, was not made until April 10, 1959. The manner in which shop drawings were dealt with by the contractor, Defence Construction (1951) Limited, and the consultant gave rise to further delays. As a result, final approval was not given to the steel fabricator until June 11, 1959. The commencement of the erection of the first hangar at Greenwood was thus delayed two months. The second hangar at Greenwood and the two at Summerside were delayed up to three months because of the disruption of fabricating schedules. The contractor was forced into winter work and additional costs of \$36,733 and \$32,087 were claimed. The claims were negotiated and settlements of \$17,870 and \$15,360 were paid to the contractor.

7. ADDITIONAL COSTS RESULTING FROM CONSTRUCTION DELAYS, NORTH BAY, ONT.—In 1959 a contract was awarded by Defence Construction (1951) Limited for the construction of a communications installation at North Bay, Ont. The final cost of the project, amounting to \$17,668,360, included \$149,883 paid to the contractor in the year under review in compensation for additional costs and interest arising from the prolongation of the contract and from carrying out the work as directed by the Crown. The prolongation of the work was primarily the result of (a) the time required to make a policy decision whether to cancel or complete the project, (b) the complexity of the project which caused difficulties in scheduling sub-contract work, and (c) delay in providing the contractor with working construction drawings.
8. CONSULTANTS' FEE IN RESPECT OF ABANDONED WORK, CAMP WAINWRIGHT, ALTA.—Defence Construction (1951) Limited entered into a contract in 1951 with a firm of consulting engineers for the preparation of contract drawings and specifications and for supervision of construction of water supply, sewerage system and additional services for Wainwright Military Camp. The construction work was planned in three stages. Stage I was completed and the consultant was paid for services rendered in accordance with the contract. Due to a change in military requirements Stages II and III were not proceeded with; however, certain work related to these stages had already been carried out by the consultants and in the year under review \$49,299 was paid in respect of this work.
9. COST OF DESIGN OF AIRCRAFT FUEL STORAGE FACILITIES NOT PROCEEDED WITH, SYDNEY, N.S.—By agreement dated January 12, 1962 an engineering firm was engaged by Defence Construction (1951) Limited to design aircraft fuel storage facilities for the Navy at Sydney, N.S. Construction of the project was deferred indefinitely, and since all design services were completed the firm was paid \$25,353, including a fee of \$19,500 for the design and preparation of working plans and specifications representing 3% of the estimated construction cost of \$650,000.
10. COST OF ABANDONED FRENCH TRANSLATION OF EXHIBITION CATALOGUES.—In order to save time in the preparation of the catalogue for the Lawren Harris exhibition, the National Gallery of Canada had the French translation prepared in Vancouver where the exhibition was being assembled. This translation was found to be unsatisfactory by the Queen's Printer and the Bureau for Translations and the catalogue was withdrawn from sale until a new French translation could be obtained. The cost of inserting the new translation, together with the cost of unsaleable catalogues, was approximately \$1,900.

11. **LOSS DUE TO INADEQUATE SHIPPING PROCEDURES.**—In 1962 the Department of Northern Affairs and National Resources entered into a contract which provided for the supply and installation of fuel oil storage tanks and distribution systems at various northern locations. The Department assumed responsibility for the shipment of the contractor's equipment and material to the work sites. Many months after delivery to the several locations, the Department was informed of shortages and a check at each site was made by personnel of the Department and of the contractor. Subsequently it was necessary for the contractor to purchase additional material to replace the deficiencies. Due to inadequacies in the shipping procedures in effect in 1962, the Department was unable to ascertain the facts of the situation and the contractor was reimbursed \$14,298 for replacement material purchased by him and \$6,745 for his costs in connection with checking the material at the sites.
12. **LOSS OF FUEL OIL, FORT MCPHERSON, N.W.T.**—Fuel oil storage facilities and an associated pipe line system for delivering oil to government departments and a few private consumers at Fort McPherson are operated by the Northern Canada Power Commission on behalf of the Department of Northern Affairs and National Resources. In December 1963 a main valve in the trunk line used to move oil from dockside to the main storage tank was left open in error permitting 33,674 gallons of oil, valued at \$9,150, to enter a pipe line leading to the premises of a consumer and to be lost due to a defect in that pipe line. The Commission issued a billing for the loss to the Department of Northern Affairs and National Resources and has since been reimbursed the amount of the loss which has been charged to the 1964-65 departmental appropriation (Vote 45) for Northern Administration.
13. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, HAMILTON, ONT.**—Early in 1959 the Department of Public Works called for tenders for the construction of a length of wharf face wall of interlocking steel sheet piling at Hamilton. When the tenders were examined in March it was found that the lowest tender, in the amount of \$547,762, involved the use of steel sheet piling of foreign manufacture for three different sections of the project. One section required the use of piling of comparatively light strength priced at \$58,175. As it was known that a Canadian manufacturer had plans for the early rolling of piling which would meet the requirements of this lightest section, arrangements were made for the substitution of the Canadian product and in June 1959 a contract was awarded on this basis at an additional cost of \$10,024.

On August 31, 1959 the Canadian piling supplier informed the contractor that it would be unable to supply the required steel. In order to proceed with the project it was necessary to revert to the use of foreign steel and the contractor did this on the understanding that the Department would pay for the additional costs involved. As the contractor had originally estimated that he would be able to complete the work during the summer construction season of 1959 and, because of the lengthy delay, was required to work under winter conditions, it was necessary in the final settlement for the Department to give recognition to costs resulting from winter conditions, high water in the spring of 1960, increased labour costs, etc. In May 1963, following lengthy negotiations, the contractor was paid \$77,044, of which \$72,824 may be regarded as non-productive, in settlement of his claim for costs stemming from the delays which he had encountered.
14. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, LEWISPORTE, Nfld.**—In 1960 the Department of Public Works awarded a contract for the construction of a railway wharf and shed at Lewisporte for the Department of Transport. The plans called for the driving of steel sheet piling. After this phase of the operation was under way the contractor found

that he could make only very slow progress and it became apparent that the subsoil investigation commissioned by the Department before the plans were prepared did not indicate conditions as difficult as were encountered on the site. After many weeks of attempting to achieve the required results with normal piledriving equipment, the contractor was able to accelerate progress by a revised method.

The extended time required for the piledriving caused delay in starting other phases of the work and in October 1963 the contractor was paid \$41,449 to compensate him for the rental of equipment which he had put on the site in anticipation of reasonable progress in piledriving and which had remained idle because of the delay.

15. ADDITIONAL COSTS DUE PRIMARILY TO CONSTRUCTION DELAY, ST. JOHN'S, NFLD.—A contract for the construction of a post office building at St. John's was entered into in 1957. Excavation for the basement revealed an underground spring. In order to overcome its hydrostatic pressure it was necessary to redesign the boiler room floor slab. Work on the project was halted for six weeks while the revised design was prepared, and the final payment to the contractor during the year under review included \$18,724 for costs attributed to the delay.

Owing to the increased thickness of the hydrostatic floor slab referred to above, the contractor was ordered to increase the elevation of the first floor slab. After basement walls had been poured to the increased elevation, it became evident that the elevation created problems in suiting the entrances to street grades. When an analysis of the minimum height requirements of the boilers and ancillary equipment indicated that the equipment could be accommodated without increasing the ceiling height to compensate for the hydrostatic floor slab, the contractor was directed to reduce the ceiling height to that provided by the original design. An additional cost of \$4,646 was incurred in connection with this reduction.

16. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, OTTAWA.—In our Report for 1960-61 reference was made to a payment of \$12,737 by the Department of Public Works to consultants for revised plans, subsequently not used, covering a number of structural changes to an Ottawa building (now the Sir Charles Tupper Building). Completion of the project was delayed by the proposed changes and also by alterations resulting from a decision to provide accommodation in the building for the Department of Fisheries. In November 1963 the contractor was paid \$22,962 as compensation for extra costs arising from the delays to which his contract was subjected.

17. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, HALIFAX, N.S.—In 1959 a firm of consultants was engaged by the Department of Public Works to prepare plans and specifications for and to supervise the construction of additions and alterations to a public building at Halifax. In March 1960 the consultants were requested to extend their commission to the designing and supervising of installation of mail handling equipment, provided that an engineering consultant acceptable to the Department be engaged by the firm to deal with this phase of the work. When the consultants sought permission to have the additional assignment carried out by their own staff, the Department withheld permission until they had produced evidence of their capability. Early in 1961, on the basis of preliminary design work submitted, the conclusion was reached that the firm was not capable of doing the work satisfactorily, and another firm was engaged to deal with the mail handling equipment.

In the meantime, the building contract had been awarded in August 1960 and the work had been progressing favourably. The delay in completing plans for the mail handling equipment resulted not only in a number of extensive changes in the contractor's work

but also in the acceptance by the Department during the year under review of responsibility for costs of \$20,988 incurred by him during a period of 21 weeks when he was unable to proceed as planned.

18. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, HAMILTON, ONT.—In May 1961 the Department of Public Works entered into a contract for the construction of an addition and for alterations to the postal terminal at Hamilton. Earlier the Department had received Treasury Board approval for the acquisition of an experimental conveyor to be installed on the premises but due to delays in the preparation of final drawings and layout for the conveyor the contract for the equipment was not awarded until January 1962. A consequence was that it was necessary to limit the construction contractor's scope of operations until the layout for the facilities had been completed. Relocation of the conveyor shaftway and revisions to the system further contributed to the delay. During the year under review the contractor was paid \$9,931 to compensate him for costs incurred because of the delay.

19. COST OF DELAY IN CONSTRUCTION OF BUILDING FOR THE POST OFFICE DEPARTMENT, OTTAWA.—A contract for the construction of a laboratory and workshop building for the Post Office Department was entered into by the Department of Public Works in July 1959. Although no indication of the requirement had been given during the design stage, in April 1960 the Post Office Department requested a modification of the plans to permit the installation of a sawdust extractor which was to be transferred from its existing location. In July 1963, after the Department of Public Works had confirmed that required revisions to the structure had delayed the contractor's operations by some ten weeks, he was paid \$6,628 in compensation.

20. COSTS RESULTING FROM CONSTRUCTION DELAYS, INCOME TAX COMPUTER CENTRE, OTTAWA.—In 1961 the Department of Public Works awarded a contract for the construction of the Income Tax Computer Centre at Ottawa. During the course of the work a number of circumstances delayed the contractor for about three months. The principal causes were:

(a) After the award of a contract for computer room equipment (by the Department of National Revenue) it was found that preliminary information as to the cooling load for the equipment was inaccurate. Work was delayed while accurate information, plans and equipment were obtained.

(b) The original tender documents did not provide for the installation of a canteen in the building. The decision in 1962 to make provision for these facilities delayed the contractor for several weeks.

In September 1963 the contractor was paid \$6,166 to compensate him for expenses resulting from the delays.

21. COSTS OF DELAY IN CONSTRUCTION OF EXTENSION TO HEATING PLANT, MONTREAL, QUE.—In May 1961 the Department of Public Works entered into a contract for the construction of an extension to the central heating plant of a hospital in Montreal for the Department of Veterans Affairs. Earlier a contract had been awarded to another contractor for the supply and installation of three boilers in connection with the project. Although steps were taken to co-ordinate the operations of the two contractors, it later developed that the time allowed for the placing of two of the boilers in operation was unrealistic, and the work of the construction contractor was delayed for ten weeks. In July 1963 he was paid \$1,975 to compensate him for costs incurred during this period.

22. COST OF TEMPORARY SUSPENSION OF CONSTRUCTION CONTRACT, ST. NICOLAS, QUE.—In May 1962 a contract was awarded by the Department of Public Works for the construction of a protection wall at St. Nicolas. After work was under way, a nearby property owner alleged violation of his rights, and activities were suspended for about six months pending clarification of the Department's position in the matter. In May 1964 the contractor was paid \$2,480 as compensation for costs incurred by him as a result of the delay.

23. CONSULTANTS' FEES IN RESPECT OF ABANDONED WORK, FROBISHER, N.W.T.—In 1959 a group of architectural and engineering firms was engaged to prepare preliminary studies and estimates of costs which it was expected would lead to the preparation of plans and specifications for the development of a townsite and the construction of various buildings at Frobisher. Early in 1962 a group consisting mainly of the same personnel who had undertaken the earlier assignment was retained to plan for and supervise the construction of the various facilities which were to form the new town.

Two construction phases were contemplated, the first to include a number of buildings, roads, utilities, and site clearance for the second phase which was intended to include the construction of other buildings, at a total estimated cost of \$12,700,000. In June 1962 the Department of Public Works entered into a contract for the first phase. In 1963, when planning for the second phase had reached the stage where the Department would shortly have been in a position to call for tenders, the Strategic Air Command (SAC) of the United States Government, which had established a refuelling base at Frobisher, decided to withdraw its operations. Under the terms of the Canada-United States agreement respecting SAC operations, the facilities at Frobisher, which included a number of buildings, became available for use by the Government of Canada. Consequently, it was decided to defer the second phase of the construction program pending an examination of the SAC facilities in relation to the accommodation requirements of the several departments involved.

In February 1963 the consultants were instructed to stop work on the preparation of plans and specifications for the second phase of the development program and in the following December they were informed that this phase was being abandoned. Payments totalling \$194,982 were made to them up to March 31, 1964 on the basis of completion of 85% of the design work on an estimated cost of \$8,875,000 for phase two.

24. CONSULTANTS' FEE IN RESPECT OF ABANDONED WORK, EDMONTON, ALTA.—In 1960 the Department of Public Works engaged a firm of architects to prepare plans and specifications and to supervise the construction of a postal terminal at Edmonton. They proceeded with a number of preliminary design studies based on a multi-storey addition to the existing terminal building, which itself was to be completely renovated. The studies included both architectural and mail handling designs and layouts. In 1962 this concept was abandoned for economic and functional reasons in favour of a two-storey addition to house mail handling operations, with alterations to the existing building being confined to changes necessary to provide administrative and office areas. During the year under review the consultants were paid \$18,000 for services rendered in connection with the original concept.

25. CONSULTANTS' FEE IN RESPECT OF ABANDONED WORK, TORONTO, ONT.—In 1961 consultants were engaged by the Department of Public Works to prepare plans for and to supervise construction of a new postal station at Toronto. In 1963, when the Department decided

to defer further action indefinitely, the engagement was terminated and the consultants were paid \$1,704 for services rendered under the "abandonment of work" provision of their terms of employment.

26. COSTS RESULTING FROM ABANDONED EXPROPRIATIONS, HULL, QUE.—Certain properties in Hull were expropriated by the Department of Public Works in 1952 to serve as a site for a new public building and to implement recommendations of the National Planning Committee with respect to the area. In 1954, after discussions with the Federal District Commission (now the National Capital Commission), the expropriations were abandoned with respect to all of the property except that required for the building site.

The owner of a substantial portion of the expropriated area operated a hotel therein and after the abandonment proceedings he took legal action to obtain compensation, claiming that during the period of about 22 months that the expropriation stood he had been compelled to operate on a day-to-day basis and plans for the reconstruction and enlargement of the hotel had been shelved. In June 1962, the Supreme Court of Canada, on appeal from an earlier Exchequer Court action, awarded \$24,480 compensation for the expropriation and reversion of the property. This amount, together with interest of \$10,669, and costs of \$9,108 not relating entirely to the reversioned area, was paid during the year under review.

27. COST OF UNUSED OFFICE SPACE, HALIFAX, N.S.—The Department of Public Works entered into a lease for a term of three years, effective October 1, 1961, to provide accommodation for the Department of Finance at Halifax. In December 1962 the premises were vacated as a result of a consolidation of services in another building. Although immediate steps were taken towards a cancellation of the lease, it was not terminated until September 30, 1963, when the lessor accepted \$4,592 in full and final settlement. This amount, together with the rent of \$7,271 paid for the period prior to that date during which the premises were unoccupied, resulted in a total payment of \$11,863 in respect of the unused accommodation.

28. COST OF VACATED POST OFFICE SPACE, NORTH EDMONTON, ALTA.—The Department of Public Works leased space in a building at North Edmonton for the use of the Post Office Department for a ten-year term commencing June 1, 1954 at the rate of \$2,200 per annum. The premises were vacated on January 15, 1962. Because the amount requested by the lessor to terminate the lease at the time would have represented little saving over continuing to pay rent to the completion of the term, the Department elected to attempt to sub-let the space. Its efforts were unsuccessful until February 1, 1964, when an offer of \$50 per month was received and accepted. Payment of rent to January 31, 1964 and a quit lease payment of \$467 for the final four months of the term resulted in a total of \$4,959 being paid for the period during which the space was not occupied by the Crown.

29. COST OF DELAY IN APPROVAL OF STRUCTURAL PLANS, KENTVILLE, N.S.—In September 1961 the Department of Public Works awarded a contract for the construction of a federal building at Kentville which was accepted by the Department in October 1962. During the year under review the structural steel sub-contractor was paid \$8,498 as compensation for a construction delay caused by late approval of shop drawings relating to an element of the steel work. Although the Department felt that the situation had stemmed from an error in judgment on the part of the consultant architect, no assessment was made against him because of his otherwise satisfactory performance.

30. **COST OF DELAY IN DEMOLITION OF BUILDING, ST. JOHN'S, NFLD.**—In September 1959 the Department of Public Works awarded a contract in the amount of \$6,990—subsequently increased to \$7,743—for the demolition of a building in the St. John's harbour area. The site was required for the construction of a marine agency depot for the Department of Transport.

Although demolition was required by late November 1959, it was not completed until the following October due to a delay for which the contractor was not responsible. As the delay resulted in the cancellation of a sale of salvaged material which he had negotiated prior to tendering and led to a substantial loss on his undertaking, the contractor sought redress. In May 1963 he was paid an additional amount of \$12,000 in settlement of approximately 50% of his claim.

Prior to demolition the building was being used by the Province of Newfoundland, on a "care and maintenance" basis, as a vocational training school. Although the Province was notified in January 1959 that vacant possession would be required by the following July, it continued to use the premises until late April 1960. The Province was advised by the Department of Public Works in November 1959 that financial responsibility for the delay was regarded as a provincial matter, but no further action was taken in this regard.

31. **COST OF TERMINATING CONTRACT FOR CONSTRUCTION OF POST OFFICE BUILDING, ST. ISIDORE DE DORCHESTER, QUE.**—In February 1963 the Department of Public Works awarded a contract for the construction of a post office at St. Isidore de Dorchester at a cost of \$14,690. Two months later, after work had commenced, the local municipal council requested that the contract be cancelled. The contractor was instructed by the Department to cease operations forthwith and in the following month he was informed that the contract was terminated. He was later paid \$4,000 in settlement of a claim for work completed and other expenses incurred in connection with the cancelled project. The site of the proposed building, acquired in 1962 at a cost of \$5,000, is being retained by the Department to meet a possible future construction requirement.

32. **COST OF ACCESS ROAD, CHATHAM POINT, B.C.**—The Department of Transport maintains a light and fog alarm station at Chatham Point, B.C., which prior to 1963 was serviced by departmental Coast Guard ships. When the Department decided to establish a meteorological observing station at the same location, it was considered in 1961 that economies would result from the construction of an access road to the site to service the expanded facilities. After work on the access road was well under way, a change in plans for the area led to the cancellation of the meteorological station project at Chatham Point. The road, completed at a cost in excess of \$55,000, is therefore utilized to provide access by land to a lightstation staffed by only two employees. It is not evident that this outlay would have been incurred for that purpose only.

33. **COST OF UNSUCCESSFUL ATTEMPT TO RECONSTRUCT LOCK ENTRANCE WALL, BOBCAYGEON, ONT.**—In 1961 the Department of Transport entered into a contract for the reconstruction of an entrance wall to a lock on the Trent Canal at Bobcaygeon, at an estimated cost of \$34,262. The plans and specifications for the work were prepared by departmental engineers. The required method of carrying out the work was to place a cofferdam across the canal downstream from the area where the wall was to be rebuilt and to de-water the area between the cofferdam and the lock so that the rebuilding of the wall might be carried out in the dry. Although the contractor was able to complete a portion of the work, for which he was paid \$8,991, he was unable to proceed with the major part because of inability to de-water the working area and in August 1962 the

contract was terminated. During the year under review, after the Department had determined that it was not economically feasible to place and maintain a cofferdam as had been originally set out in the specifications, the contractor was paid an additional \$30,631 to compensate him for costs incurred in his abortive attempt to complete the contract.

The Department subsequently undertook to complete the work by a method which would allow the wall to be reconstructed without having the area de-watered, at an estimated cost of \$45,000.

34. ARCHITECTS' FEE IN RESPECT OF ABANDONED WORK, MONTREAL, QUE.—In 1961 architects were engaged to prepare plans and specifications for, and supervise construction of, an addition and alterations to the Queen Mary Veterans Hospital at Montreal. After the architects had completed the sketch plans and preliminary drawings they were instructed to take no further action on the project. Based on an estimated cost of construction of \$9,142,190 and in accordance with their terms of engagement, the architects were paid \$110,047 (\$99,000 in 1962-63) for services in connection with the project. Whether the project will be undertaken at some future time and use made of the plans and specifications is not known.
35. COST OF UNUSED PLANS FOR HOSPITAL ALTERATIONS, LONDON, ONT.—In 1957 consultants were engaged to prepare plans and specifications and to supervise the construction of a new wing and alterations to the surgical and X-ray departments at a London hospital for the Department of Veterans Affairs. When the plans and specifications were nearing completion the Department decided to eliminate alterations to the surgical and X-ray departments because it was felt that to carry out these alterations while the construction of the new wing was in progress would cause too much disruption of the functions of the hospital. After the new wing had been substantially completed, the consultants were re-engaged in connection with alterations to the X-ray department but the new concept envisaged substantial reductions both in scope and cost from what had been earlier contemplated. The original design was therefore abandoned and in August 1963 the consultants were paid \$23,465, on a quantum meruit basis, for services rendered in the preparation of the unused plans.

**SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE,
BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES**

**Authorized and on Strength as at March 31, 1964
with Comparable Figures as at March 31, 1963**

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
			DEPARTMENTS (Note 1)—			
			Agriculture—			
431	439	8	Administration Branch.....	399	386	(13)
4,003	3,940	(63)	Research Branch.....	3,350	3,250	(100)
2,064	2,056	(8)	Production and Marketing Branch.....	1,916	1,908	(8)
1,443	1,491	48	Health of Animals Branch.....	1,400	1,431	31
			Prairie Farm Rehabilitation			
1,127	1,183	56	Administration.....	962	991	29
			Prairie Farm Assistance			
89	63	(26)	Administration.....	86	61	(25)
930	942	12	Board of Grain Commissioners.....	866	834	(32)
228	255	27	Canadian Government Elevators.....	215	231	16
10,315	10,369	54		9,194	9,092	(102)
15	16	1	Atomic Energy Control Board.....	14	14	—
180	180	—	Auditor General's Office.....	157	160	3
40	40	—	Board of Broadcast Governors.....	37	36	(1)
			Chief Electoral Officer—			
20	20	—	Permanent.....	18	19	1
77	11	(66)	Casual.....	77	11	(66)
97	31	(66)		95	30	(65)
205	203	(2)	Citizenship and Immigration—			
217	217	—	Administration.....	180	175	(5)
2,203	1,987	(216)	Citizenship Branch.....	188	182	(6)
2,979	2,910	(69)	Immigration Branch.....	1,910	1,726	(184)
5,604	5,317	(287)	Indian Affairs Branch.....	2,694	2,698	4
				4,972	4,781	(191)
10	11	1	Civil Service Commission—			
132	121	(11)	Commissioners and Staff.....	9	10	1
480	530	50	Executive Secretary (Administration and Personnel)	112	87	(25)
99	89	(10)	Operations Branch.....	429	480	51
47	47	—	Advisory Services and Appeals Branch.....	75	77	2
45	43	(2)	Pay and Standards Branch.....	34	36	2
813	841	28	Pay Research Bureau.....	41	44	3
				700	734	34
458	491	33	Defence Production—			
187	181	(6)	Administration and Offices Abroad.....	414	452	38
927	1,076	149	Financial Branch.....	175	166	(9)
75	75	—	Production Branches and Regional Purchasing Branch	877	952	75
1,647	1,823	176	Emergency Supply Planning Branch.....	60	69	9
				1,526	1,639	113
2,439	2,537	98	External Affairs—			
109	110	1	External Affairs.....	2,278	2,358	80
12	12	—	External Aid Office.....	87	98	11
2,560	2,659	99	International Joint Commission.....	10	11	1
				2,375	2,467	92

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
DEPARTMENTS (Continued)						
301	328	27	Finance—			
147	155	8	Administration.....	270	286	16
352	385	33	Comptroller of the Treasury—			
3,397	3,302	(95)	Headquarters.....	119	122	3
339	342	3	Regional Offices.....	320	341	21
161	150	(11)	Treasury Offices.....	3,144	2,980	(164)
48	—	(48)	Audit Services Branch.....	306	324	18
379	429	50	Cheque Adjustment Division.....	135	126	(9)
51	36	(15)	Central Disbursement Division.....	43	—	(43)
281	321	40	Central Services Branch.....	329	384	55
204	204	—	Securities Deposit Division.....	30	26	(4)
32	35	3	Royal Canadian Mint.....	276	310	34
22	22	—	Superannuation Branch.....	181	174	(7)
19	19	—	Tariff Board.....	28	32	4
3	4	1	Guaranteed Loans Division.....	19	19	—
—	10	10	Government Switchboard.....	18	19	1
5,736	5,742	6	Inspector General of Banks.....	3	4	1
			Municipal Development and Loan Board.....	—	7	7
				5,221	5,154	(67)
92	91	(1)	Fisheries—			
180	181	1	Administration.....	77	76	(1)
721	736	15	Field Service Administration.....	159	164	5
331	328	(3)	Conservation and Development Services.....	710	716	6
224	224	—	Inspection Services.....	308	317	9
665	674	9	Miscellaneous Services.....	192	196	4
213	2,234	21	Fisheries Research Board.....	608	655	47
				2,054	2,124	70
192	192	—	Forestry—			
476	476	—	Administration Branch.....	159	167	8
646	646	—	Forest Research Branch.....	445	453	8
204	204	—	Forest Entomology and Pathology Branch.....	611	617	6
60	64	4	Forest Products Research Branch.....	175	187	12
—	14	14	Maritime Marshland Rehabilitation Administration.....	56	45	(11)
578	1,596	18	Agriculture Rehabilitation and Development.....	—	11	11
				1,446	1,480	34
16	17	1	Governor General and Lieutenant Governors.....	15	16	1
—	142	142	Industry.....	—	125	125
112	112	—	Insurance.....	96	100	4
345	348	3	Justice—			
144	144	—	Administration.....	304	314	10
080	3,125	45	National Parole Board.....	105	111	6
52	52	—	Penitentiaries.....	2,897	3,062	165
363	402	39	Trade Marks Office.....	46	45	(1)
984	4,071	87	Patent and Copyright Office.....	324	332	8
				3,676	3,864	188
680	769	89	Labour—			
986	11,562	576	Departmental Administration and administration of various Acts.....	614	668	54
366	12,331	665	Unemployment Insurance Commission.....	10,163	10,693	530
				10,777	11,361	584
108	191	83	Legislation—			
222	945	23	Senate.....	108	191	83
63	61	(2)	House of Commons.....	922	945	23
993	1,197	104	Library of Parliament.....	58	59	1
				1,088	1,195	107

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
			DEPARTMENTS (Continued)			
			Mines and Technical Surveys—			
213	214	1	Administration.....	189	188	(1)
711	711	—	Surveys and Mapping Branch.....	646	652	6
665	665	—	Mines Branch.....	600	601	1
537	541	4	Marine Sciences Branch.....	433	474	41
413	413	—	Geological Survey.....	382	392	10
162	165	3	Dominion Observatories.....	141	146	5
19	19	—	Dominion Coal Board.....	17	17	—
164	176	12	Other.....	142	141	(1)
2,884	2,904	20		2,550	2,611	61
			National Defence (Civilian Staffs)—			
679	685	6	Departmental Administration.....	594	590	(4)
1,420	1,420	—	Inspection Service.....	1,264	1,193	(71)
13,104	13,147	43	Royal Canadian Navy.....	12,174	11,776	(398)
18,183	18,620	437	Canadian Army.....	16,506	16,432	(74)
16,111	16,216	105	Royal Canadian Air Force.....	15,225	14,897	(328)
3,202	3,243	41	Defence Research Board.....	2,827	2,802	(25)
52,699	53,331	632		48,590	47,690	(900)
68	69	1	National Gallery of Canada.....	59	55	(4)
			National Health and Welfare—(Note 3)			
369	380	11	Departmental Administration.....	338	335	(3)
518	540	22	Health Services.....	457	473	16
3,109	3,124	15	Medical Services.....	2,755	2,748	(7)
444	522	78	Food and Drug Services.....	398	474	76
896	810	(86)	Welfare Services.....	763	770	7
5,336	5,376	40		4,711	4,800	89
			National Research Council, including the Medical Research Council—			
440	439	(1)	Administration.....	383	409	26
5	6	1	Medical Research Council.....	5	6	1
2,923	2,889	(34)	Scientific and Engineering Divisions.....	2,776	2,723	(53)
3,368	3,334	(34)		3,164	3,138	(26)
			National Revenue—Customs and Excise—			
362	391	29	Senior Administration.....	303	346	43
382	249	(133)	Appraisers.....	230	233	3
676	825	149	Excise Tax.....	638	783	145
62	62	—	Port Administration.....	59	59	—
148	150	2	Customs Inspection and Investigation.....	145	147	2
139	267	128	Checking, Refunds and Drawbacks.....	258	262	4
6,585	6,365	(220)	Ports.....	5,893	5,855	(38)
8,354	8,309	(45)		7,526	7,685	159
			National Revenue—Taxation Division—			
607	591	(16)	Head Office.....	481	500	19
890	1,597	707	Data Centre (Ottawa).....	1,097	1,817	720
6,623	6,000	(623)	District Offices.....	5,617	5,478	(139)
22	22	—	Tax Appeal Board.....	20	20	—
8,142	8,210	68		7,215	7,815	600
			Northern Affairs and National Resources—			
204	213	9	Administration.....	174	192	18
279	279	—	Water Resources Branch.....	242	235	(7)
			National Parks Branch—			
56	56	—	Administration.....	42	46	4
			Operation and Maintenance of National Parks and Historic Sites and Monuments.....	2,431	2,056	(375)
2,476	2,489	13	Canadian Wild Life Service.....	87	90	3
107	111	4				

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
			DEPARTMENTS (Continued)			
			Northern Affairs and National Resources—Concluded			
			Northern Administration Branch—			
196	196	—	Administration.....	165	156	(9)
419	445	26	Education Division.....	399	450	51
165	165	—	Welfare and Industrial Division.....	98	132	34
586	586	—	Northwest Territories and Other Field Services...	440	493	53
62	62	—	Yukon Territory.....	47	45	(2)
4,550	4,602	52		4,125	3,895	(230)
			Post Office—			
			Headquarters.....	970	932	(38)
1,091	1,131	40	District Offices.....	820	856	36
761	860	99	Railway Mail Service.....	553	498	(55)
659	581	(78)	Staff Post Offices.....	25,191	25,719	528
25,544	25,909	365		27,534	28,005	471
28,055	28,481	426				
			Privy Council—			
			Privy Council Office.....	96	117	21
106	126	20	Bureau of Government Organization.....	4	6	2
11	11	—	Prime Minister's Residence.....	6	7	1
7	7	—	Emergency Measures Organization.....	93	91	(2)
113	113	—	Civil Defence College.....	93	98	5
106	106	—	Economic Council of Canada.....	—	61	61
—	99	99	successor to			
14	—	(14)	National Productivity Council.....	14	—	(14)
357	462	105		306	380	74
			Public Archives and National Library—			
			Public Archives.....	131	134	3
145	189	44	National Library.....	49	67	18
57	121	64		180	201	21
202	310	108				
			Public Printing and Stationery—			
			Departmental Administration, Purchasing, etc.....	440		
478			Printing Production—Main plant.....	838		
953			Outside Printing Production Branch.....	410		
427						
			Re-organized during 1963 as follows—			
			Canadian Government Printing Bureau—(Directorate of Printing of the Department of Defence Production)			
	136		Departmental Administration.....		124	
	185		Purchasing Stationery and Stores.....		172	
	924		Printing Production—Main Plant.....		782	
	423		Outside Printing Production Branch.....		407	
			Queen's Publisher—Publications Branch—			
	30		Departmental Administration.....		28	
	159		Distribution of official documents including print procurement.....		139	
1,858	1,857	(1)		1,688	1,652	(36)
			Public Works—			
			General Administration.....	1,647	1,620	(27)
1,868	1,842	(26)	Maintenance and Operation of Public Buildings and Grounds—			
			Ottawa.....	2,541	2,527	(14)
2,753	2,746	(7)	Other than at Ottawa.....	3,607	3,515	(92)
3,981	3,943	(38)	Harbours and Rivers Engineering Services.....	505	443	(62)
593	575	(18)	Development Engineering Services.....	143	139	(4)
158	160	2		8,443	8,244	(199)
2,353	2,266	(87)				

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
DEPARTMENTS (Concluded)						
Royal Canadian Mounted Police—						
650	649	(1)	Headquarters.....	570	561	(9)
1,012	1,009	(3)	Land, Air and Training Divisions.....	954	963	9
13	13	—	Marine Services.....	12	13	1
1,675	1,671	(4)		1,536	1,537	
Secretary of State—						
63	63	—	Departmental Administration.....	51	60	9
33	33	—	Companies and Corporations Branch.....	25	25	—
322	360	38	Bureau for Translations.....	295	314	19
124	137	13	National Museum.....	89	104	15
—	18	18	Office of the Representation Commissioner.....	—	15	15
7	8	1	Atlantic Development Board.....	3	8	5
549	619	70		463	526	63
Trade and Commerce—						
616	521	(95)	Departmental Administration.....	550	477	(73)
624	624	—	Trade Commissioner Service.....	573	623	50
429	446	17	Standards Branch.....	426	444	18
52	52	—	Exhibitions Branch.....	49	46	(3)
108	172	64	Canadian Government Travel Bureau.....	96	174	78
—	12	12	Canadian Participation in the Universal and Inter- national Exhibition, Montreal, 1967.....	—	3	3
2,304	2,428	124	Dominion Bureau of Statistics.....	2,118	2,230	112
73	73	—	National Energy Board.....	61	61	—
4,206	4,328	122		3,873	4,053	185
Transport—						
668	682	14	Departmental Administration.....	596	596	—
Marine Services—						
2,433	2,428	(5)	Marine Administration and Marine Works.....	2,180	2,109	(71)
2,009	2,075	66	Marine Operations.....	1,792	1,869	77
496	498	2	Marine Regulations.....	375	387	12
Air Services—						
490	490	—	Administration.....	422	420	(2)
1,674	1,679	5	Control of Civil Aviation and Air Traffic Control..	1,507	1,514	7
2,604	2,655	51	Airports and Property Management.....	2,121	2,170	49
699	719	20	Construction Branch.....	625	625	—
2,577	2,585	8	Telecommunications and Electronics Branch.....	2,321	2,359	38
2,377	2,397	20	Meteorological Branch.....	1,958	1,992	34
494	494	—	Radio Regulations.....	437	433	(4)
90	90	—	Air Transport Board.....	85	84	(1)
178	178	—	Board of Transport Commissioners.....	166	167	1
26	26	—	Canadian Maritime Commission.....	26	26	—
16,815	16,996	181		14,611	14,751	140
Veterans Affairs—						
1,321	1,319	(2)	Departmental and District Administration.....	1,192	1,143	(49)
12,084	12,078	(6)	Veterans' Treatment and Welfare Services, etc.....	11,377	11,358	(19)
380	380	—	Canadian Pension Commission.....	352	338	(14)
797	790	(7)	Veterans' Land Act Administration.....	663	657	(6)
14,582	14,567	(15)		13,584	13,496	(88)
210,722	213,410	2,688	Total, Departments.....	193,601	194,911	1,310
CROWN CORPORATIONS (Notes 1 and 2)						
Atomic Energy of Canada Limited—						
465	461	(4)	Head Office and Chalk River Administration.....	456	453	(3)
1,877	1,905	28	Nuclear Laboratories.....	1,795	1,784	(11)
291	361	67	Commercial Products Division.....	281	351	70
69	241	172	Whiteshell Nuclear Research Establishment.....	51	181	130
232	225	(7)	Power Projects.....	210	227	17
69	109	40	Temporary—Construction Workers, Nurses, etc.....	69	109	40
3,006	3,302	296		2,862	3,105	243

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
			CROWN CORPORATIONS (Continued)			
			Canadian Arsenal Limited—			
			Head Office.....	86	76	(10)
			Filling Division.....	516	388	(128)
			Explosives Division.....	430	274	(156)
			Dominion Arsenal Division.....	388	363	(25)
			Small Arms Division.....	300	221	(79)
			Instruments and Electronics Division.....	274	160	(114)
2,090	1,482	(608)	Gun Ammunition Division.....	96	—	(96)
				2,090	1,482	(608)
			Canadian Broadcasting Corporation—			
539	558	19	Head Office.....	488	500	12
288	305	17	National Engineering.....	294	277	(17)
6,818	7,104	286	Regional Offices.....	6,724	6,907	183
26	15	(11)	Foreign Offices.....	23	15	(8)
66	73	7	Northern and Armed Forces Services.....	87	81	(6)
155	164	9	International Service.....	154	159	5
7,892	8,219	327		7,770	7,939	169
			Canadian Corporation for the 1967 World Exhibition—			
10	11	1	Executive.....	5	11	6
3	24	21	Secretariat.....	1	23	22
20	69	49	Finance and Administration.....	3	68	65
15	167	152	Installations.....	—	125	125
28	75	47	Exhibitors.....	—	59	59
3	63	60	Operations.....	—	26	26
79	409	330		9	312	303
86	87	1	Canadian Commercial Corporation.....	86	87	1
			Canadian National Railways—(Note 4)			
			General.....	19,155	10,996	
			Road Maintenance.....	15,160	16,564	
			Equipment Maintenance.....	16,542	17,843	
			Transportation.....	26,066	32,812	
308	89,333	25	Other Operations.....	12,385	11,118	
				89,308	89,333	25
						(Note 5)
			Canadian Overseas Telecommunication Corporation—			
			Administrative.....	79	87	8
			Head Office Engineering.....	23	38	10
			Traffic Representatives.....	11	11	—
449	534	85	Operating.....	331	398	67
				449	534	85
4	4	—	Canadian Patents and Development Limited.....	4	4	—
30	50	20	Centennial Commission.....	6	46	40
			Central Mortgage and Housing Corporation—			
			Regular.....	1,953	1,992	39
020	2,076	56	Contract and casual.....	67	84	17
				2,020	2,076	56
99	97	(2)	Crown Assets Disposal Corporation.....	99	97	(2)
			Defence Construction (1951) Limited—			
			Administration.....	144	121	(23)
			Engineers.....	74	58	(16)
297	246	(51)	Technical.....	79	67	(12)
				297	246	(51)
27	33	6	Eldorado Aviation Limited.....	27	33	6

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
			CROWN CORPORATIONS (Continued)			
			Eldorado Mining and Refining Limited—			
			Head Office and General Administration.....	41	42	1
			Beaverlodge Division.....	547	520	(27)
			Refinery and Sales.....	194	142	(52)
			Research and Development.....	51	63	12
833	767	(66)		833	767	(66)
58	61	3	Export Credits Insurance Corporation.....	58	61	3
			Farm Credit Corporation—			
3	3	—	Executive Officers.....	2	3	1
14	14	—	Branch Managers and Assistant Branch Managers....	14	14	—
36	37	1	Loaning Officers.....	29	34	5
			Administrative, Accounting, Legal and Securities			
34	37	3	Officers.....	30	33	3
203	211	8	Field Staff.....	186	195	9
229	234	5	Office Staff.....	207	219	12
519	536	17		468	498	30
23	22	(1)	The National Battlefields Commission.....	22	22	—
			National Capital Commission—			
26	28	2	Administrative, Accounting, etc.....	22	26	4
37	42	5	Planning, Property Acquisition and Management.....	35	34	(1)
			Landscape Architecture, Engineering, Construction			
66	59	(7)	and Maintenance, etc.....	57	55	(2)
514	515	1	Prevailing rate—permanent and seasonal.....	297	277	(20)
125	146	21	Construction employees for specific works.....	125	146	21
768	790	22		536	538	2
			National Harbours Board—			
			Head Office.....	52	57	5
			Harbours and Elevators			
			Salaried.....	804	836	32
2,529	2,285	(44)	Prevailing rate.....	1,473	1,392	(81)
				2,329	2,285	(44)
			Northern Canada Power Commission—			
			Head and Regional Offices.....	37	39	2
184	209	25	Field Locations.....	147	170	23
				184	209	25
38	37	(1)	Northern Transportation Company Limited.....	38	37	(1)
			Polymer Corporation Limited and Subsidiary Com-			
			panies—			
1,204	1,336	132	Salaried.....	1,152	1,298	146
1,916	2,042	126	Hourly rate.....	1,894	2,042	148
3,120	3,378	258		3,046	3,340	294
			The St. Lawrence Seaway Authority—			
			Administrative and Engineering.....	257	275	18
			Operations.....	669	650	(19)
			Maintenance.....	476	485	9
1,402	1,410	8		1,402	1,410	8
19	18	(1)	The Seaway International Bridge Corporation Limited	19	18	(1)

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—*Concluded*

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1963	March 1964	Increase (Decrease)		March 1963	March 1964	Increase (Decrease)
			CROWN CORPORATIONS (Concluded)			
			Trans-Canada Air Lines—			
			Operations Department			
			Flying personnel.....	1,445	1,254	(191)
			Other personnel.....	6,084	6,180	96
			Sales Department.....	2,733	2,638	(95)
			Purchases and Stores Department.....	576	556	(20)
			Finance Department.....	465	474	9
			All Other.....	310	321	11
1,613	11,423	(190)		11,613	11,423	(190)
3,293	126,808	515	Total, Crown Corporations.....	125,575	125,902	327
			OTHER INSTRUMENTALITIES (Notes 1 and 2)			
1,064	1,080	16	Bank of Canada.....	1,064	1,080	16
33	34	1	The Canada Council.....	33	34	1
582	614	32	The Canadian Wheat Board.....	582	614	32
16	10	(6)	The Custodian.....	16	10	(6)
491	499	8	Industrial Development Bank.....	491	499	8
806	864	58	National Film Board.....	736	780	44
992	3,101	109	Total, Other Instrumentalities.....	2,922	3,017	95
007	343,319	3,312	TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES.....	322,098	323,830	1,732

NOTES:

- 1) The figures appearing in these listings are based on the information provided by the various departments, Crown corporations and other instrumentalities. They include the numbers of seasonal, part-time and casual employees actually on strength at March 31, 1963 and March 31, 1964. For purposes of comparison these have been included in the figures shown for "Employees authorized".
- 2) Where no establishments have been authorized by the executive boards of certain Crown corporations or other instrumentalities, the totals of the actual strength figures have been shown in the "Employees authorized" columns for purposes of comparison.
- 3) The casual employees of the Department of National Health and Welfare in the regional offices are controlled on a budgetary basis and the Department was unable to give the actual number of casual employees on strength at March 31.
- 4) Effective January 1, 1963 a new method of counting employees was implemented in Canadian National Railways. The average level of employment is derived from the sum of the total number of employees who work seven days or more in the first semi-monthly pay period and the total number of employees who work seven days or more in the second semi-monthly pay period divided by two, plus all employees paid once a month. Prior to 1963 the count was based on the number of employees who received pay cheques at the middle of the month.
- 5) Effective January 1, 1964 a revised "Canadian Classification of Railway Employees" was implemented. Because of changes in the composition of the major employee groups, comparisons between 1963 and 1964 are valid only when made between total numbers of employees and not between specific employee groups.

**SUMMARY OF EXPENDITURE BY STANDARD OBJECTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1964**

(with comparable figures for the preceding fiscal year)

(in millions of dollars)

	1963-64	1962-63	Increase or decrease (-)
Civil salaries and wages.....	\$ 908.3	\$ 864.4	\$ 43.9
Civilian allowances.....	17.9	16.1	1.8
Pay and allowances, defence forces and Royal Canadian Mounted Police.....	613.0	583.9	29.1
Professional and special services.....	97.0	91.1	5.9
Travelling and removal expenses.....	63.1	63.3	— .2
Freight, express and cartage.....	10.9	11.1	— .2
Postage.....	5.9	6.3	— .4
Telephone, telegrams and other communication services.....	36.2	29.3	6.9
Publication of departmental reports and other material.....	9.7	9.0	.7
Exhibits, advertising, films, broadcasting and displays.....	14.1	13.2	.9
Office stationery, supplies, equipment and furnishings.....	27.0	23.1	3.9
Materials and supplies.....	179.8	180.2	— .4
Buildings and works, including land—			
Construction or acquisition.....	210.4	289.3	—78.9
Repairs and upkeep.....	62.1	52.2	9.9
Rentals.....	17.2	17.2	.0
Equipment—			
Construction or acquisition.....	300.3	285.6	14.7
Repairs and upkeep.....	161.3	143.9	17.4
Rentals.....	6.4	6.6	— .2
Municipal or public utility services.....	70.3	64.3	6.0
Contributions, grants, subsidies, etc., not included elsewhere.....	860.6	814.9	45.7
Pensions, superannuation and other benefits.....	226.1	142.6	83.5
All other expenditures (other than special categories).....	144.9	154.2	—9.3
Interest on public debt, etc.....	993.7	917.8	75.9
Subsidies and special payments to the provinces.....	254.3	275.3	—21.0
Family allowance payments.....	538.3	531.6	6.7
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	171.8	159.2	12.6
Veterans' disability pensions, etc.....	173.2	176.0	—2.8
Other payments to veterans and dependents.....	94.3	93.1	1.2
Government's contribution to the Unemployment Insurance Fund.....	59.3	57.3	2.0
Hospital insurance and general health grants.....	445.2	387.0	58.2
Trans-Canada highway contributions.....	39.2	29.2	10.0
Movement of mail by land, air and water.....	65.5	63.3	2.2
Deficits—Government-owned enterprises.....	55.2	64.2	—9.0
	\$6,932.5	\$6,615.8	\$316.7
Less: Expenditure recovered.....	60.1	45.5	14.6
Net total expenditure.....	\$6,872.4	\$6,570.3	\$302.1

EXHIBITS

(as published in the Public Accounts)

Statement of Expenditure and Revenue for the Fiscal Year ended March 31, 1964 ..	Exhibit 1
Statement of Assets and Liabilities as at March 31, 1964	Exhibit 2
Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the Fiscal Year ended March 31, 1964	Exhibit 3
Summary of Revenue by Main Classifications and Departments for the Fiscal Year ended March 31, 1964	Exhibit 4

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparative figures for

EXPENDITURE

	Fiscal year ended	
	March 31, 1964	March 31, 1963
Agriculture.....	\$ 225,681,474	\$ 183,426,730
Atlantic Development Board.....	196,331	5,033
Atomic Energy.....	45,955,220	63,205,370
Auditor General's Office.....	1,258,359	1,218,834
Board of Broadcast Governors.....	341,849	353,913
Canadian Broadcasting Corporation.....	87,575,697	80,815,947
Central Mortgage and Housing Corporation.....	13,469,874	8,654,465
Office of the Chief Electoral Officer.....	11,875,892	11,815,352
Citizenship and Immigration.....	71,545,372	66,114,804
Civil Service Commission.....	5,224,776	4,792,379
Defence Production.....	41,564,748	30,918,846
Economic Council of Canada.....	164,824	
Emergency Measures Organization.....	6,942,249	6,369,909
External Affairs.....	97,022,596	85,196,665
Finance—		
Public debt charges.....	993,729,375	917,787,239
Fiscal, tax-sharing, subsidy and other payments to provinces.....	254,330,006	275,302,387
Other expenditure.....	158,375,231	161,690,212
	<i>1,406,434,612</i>	<i>1,354,779,838</i>
Fisheries.....	23,716,314	23,292,700
Forestry.....	41,815,947	31,840,094
Governor General and Lieutenant-Governors.....	524,159	467,638
Industry.....	696,257	433,689
Insurance.....	1,435,005	1,422,120
Justice.....	40,995,992	37,020,572
Labour.....	280,383,807	348,291,775
Legislation.....	12,923,599	8,108,063
Mines and Technical Surveys.....	67,759,325	71,130,401
National Defence—		
Royal Canadian Navy.....	297,972,475	269,438,503
Canadian Army.....	452,665,501	443,163,371
Royal Canadian Air Force.....	700,847,349	713,884,440
Defence research and development.....	46,053,342	41,089,007
Other expenditure.....	185,932,336	103,468,758
	<i>1,683,471,003</i>	<i>1,571,044,079</i>
National Film Board.....	5,743,931	5,610,630
National Gallery.....	1,067,949	987,271
National Health and Welfare—		
Family allowances.....	538,312,223	531,566,349
Other expenditure.....	665,542,374	590,881,908
	<i>1,203,854,597</i>	<i>1,122,448,257</i>
National Research Council, including the Medical Research Council.....	47,259,773	40,596,727
National Revenue.....	82,995,521	78,725,211
Northern Affairs and National Resources.....	77,334,019	86,377,092
Post Office.....	206,894,516	189,344,410
Privy Council.....	2,929,115	2,131,902
Public Archives and National Library.....	1,112,723	1,035,471
Public Printing and Stationery.....	2,147,045	2,038,633
Public Works.....	167,000,704	162,730,246
Office of the Representation Commissioner.....	37,006	
Royal Canadian Mounted Police.....	66,899,479	65,424,359
Secretary of State.....	7,568,044	4,782,903
Trade and Commerce.....	73,584,061	65,767,556
Transport.....	423,257,874	416,019,472
Veterans Affairs—		
Pensions.....	173,164,513	175,901,737
Other expenditure.....	160,575,368	159,700,712
	<i>333,739,881</i>	<i>335,602,449</i>
Total expenditure.....	6,872,401,519	6,570,341,805
Budgetary deficit.....	-619,197,480	-691,632,927
	<i>6,253,204,039</i>	<i>5,878,708,878</i>

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance

EXHIBIT 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1964
the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1964	March 31, 1963
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$1,865,073,635	\$1,744,626,029
Corporation ⁽¹⁾	1,258,957,490	1,182,836,979
On dividends, interest, etc., going abroad.....	124,499,621	129,137,372
Excise taxes—		
Sales ⁽¹⁾	946,054,797	805,970,471
Other.....	273,415,444	260,378,073
Customs import duties.....	581,441,461	644,992,131
Excise duties.....	393,326,182	381,865,989
Estate tax ⁽²⁾	90,671,283	87,143,312
Miscellaneous.....	91,869	27,028
	5,533,531,782	5,236,977,384
Non-tax revenues—		
Return on investments.....	366,412,592	311,860,829
Post Office—net postal revenue.....	200,717,142	192,771,815
Refunds of previous years' expenditure.....	26,839,307	22,392,490
Services and service fees.....	51,321,056	46,185,576
Proceeds from sales.....	28,444,672	26,531,005
Privileges, licences and permits.....	27,172,568	25,008,212
Bullion and coinage.....	9,717,080	9,404,342
Premium, discount and exchange.....	232,234	
Miscellaneous.....	8,815,606	7,577,225
	719,672,257	641,731,494

⁽¹⁾Excluding tax credited to the old age security fund—

	1963-64	1962-63
Personal income tax.....	302,600,000	273,650,000
Corporation income tax.....	115,750,000	115,250,000
Sales tax.....	331,760,067	302,238,927

⁽²⁾Includes duties levied under the Dominion Succession Duty Act.

Total revenue.....	6,253,204,039	5,878,708,878
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditures and revenues of Canada for the year ended March 31, 1964.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT
STATEMENT OF ASSETS AND
(with comparative figures)

ASSETS

	March 31, 1964	March 31, 1963	Net increase or decrease (-) during 1963-64
1. Current assets—			
(a) Cash, schedule A.....	\$ 984,642,872	\$ 511,347,154	\$ 473,295,718
(b) Departmental working capital advances and revolving funds, schedule B.....	168,806,488	243,267,010	-74,460,522
(c) Securities held for the securities investment account at amortized cost.....	99,859,788	33,480,163	66,379,625
(d) Other current assets, schedule C.....	33,753,992	32,316,719	1,437,273
	1,287,063,140	820,411,046	466,652,094
2. Advances to the exchange fund account—(value of investments from advances on basis of official parity rate March 31, 1964, \$2,631,200,188; closing exchange rate March 31, 1963, \$2,757,046,289).....	2,601,000,000	2,736,000,000	-135,000,000
3. Sinking fund and other investments held for retirement of unmatured debt, schedule D.....		22,311,845	-22,311,845
4. Loans to, and investments in, Crown corporations, schedule E.....	4,584,194,507	4,468,119,368	116,075,139
5. Loans to national governments, schedule F.....	1,195,684,799	1,210,776,466	-15,091,667
6. Other loans and investments, schedule G			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations.....	702,130,003	693,997,679	8,132,324
(b) Loans to provincial governments.....	113,651,578	116,817,626	-3,166,048
(c) Veterans land act advances (less reserve for conditional benefits).....	216,970,307	196,018,731	20,951,576
(d) Miscellaneous.....	165,064,212	103,820,343	61,243,869
	1,197,816,100	1,110,654,879	87,161,221
7. Securities held in trust, schedule H.....	38,881,823	26,016,103	12,865,720
8. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account.....		524,849,000	-524,849,000
Public service superannuation account.....	276,661,000	276,661,000	
Royal Canadian Mounted Police superannuation account.....		3,533,000	-3,533,000
(b) Unamortized loan flotation costs, appendix No. 7.....	123,699,586	131,601,094	-7,901,508
	400,360,586	936,644,094	-536,283,508
9. Suspense accounts, schedule I.....	141,392	136,100	5,292
10. Capital assets.....	1	1	
11. Inactive loans and investments, schedule J.....	94,824,381	94,824,381	
Total recorded assets.....	11,399,966,729	11,425,893,783	-25,927,054
12. Less: Reserve for losses on realization of assets.....	-546,384,065	-546,384,065	
Net recorded assets.....	10,853,582,664	10,879,509,718	-25,927,054
13. Net debt, represented by excess of liabilities over net recorded assets, schedule K.....	15,070,149,452	13,919,769,972	1,150,379,480
	25,923,732,116	24,799,279,690	1,124,452,426

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(The schedules and the appendix referred to in the above Statement, and the pages referred to in the two notes, are to be found in the Public Accounts, Section 7 of Volume 1)

EXHIBIT 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1964

as at March 31, 1963)

LIABILITIES

	March 31, 1964	March 31, 1963	Net increase or decrease (-) during 1963-64
4. Current and demand liabilities, schedule L			
(a) Outstanding treasury cheques.....	\$ 319,894,410	\$ 266,548,686	\$ 53,345,724
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	342,673,020	267,364,119	75,308,901
(c) Non-interest-bearing notes payable to the international monetary fund and the international development associa- tion.....	586,996,025	757,284,519	-170,288,494
(d) Matured debt outstanding.....	26,820,209	32,466,821	-5,646,612
(e) Interest due and outstanding.....	91,893,489	79,460,893	12,432,596
(f) Interest accrued.....	215,973,372	196,973,991	18,999,381
(g) Other current liabilities.....	35,710,909	31,379,226	4,331,683
	1,619,961,434	1,631,478,255	-11,516,821
5. Deposit and trust accounts, schedule M.....	196,454,123	225,202,751	-28,748,628
6. Annuity, insurance and pension accounts, schedule N.....	5,131,053,811	4,747,016,868	384,036,943
7. Undisbursed balances of appropriations to special accounts, schedule O.....	111,601,270	119,951,698	-8,350,428
8. Deferred credits, schedule P.....	119,446,821	107,739,147	11,707,674
9. Suspense accounts, schedule Q.....	5,117,628	6,054,640	-937,012
10. Unmatured debt, schedule R			
(a) Bonds.....	16,510,097,029	15,796,836,331	713,260,698
(b) Treasury bills.....	2,230,000,000	2,165,000,000	65,000,000
	18,740,097,029	17,961,836,331	778,260,698

NOTE:

The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, \$1,377,611,480; other guarantees of \$5,950,662,777; together with certain indeterminate guarantees, are listed on page 73.

Total liabilities.....	25,923,732,116	24,799,279,690	1,124,452,426
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1964.

A. M. HENDERSON,
Auditor General.

**SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES
BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1964**

Section	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward ⁽¹⁾
		\$	\$	\$	\$
1	Agriculture.....	231,075,932	225,681,474	5,394,458	
2	Atlantic Development Board.....	352,500	196,331	156,169	
3	Atomic Energy.....	45,968,600	45,955,220	13,380	
4	Auditor General's Office.....	1,335,867	1,258,359	77,508	
5	Board of Broadcast Governors.....	362,731	341,849	20,882	
6	Canadian Broadcasting Corporation.....	87,644,900	87,575,697	69,203	
7	Central Mortgage and Housing Corporation.....	13,497,274	13,469,874	27,400	
8	Office of the Chief Electoral Officer.....	11,881,701	11,875,892	5,809	
9	Citizenship and Immigration.....	72,733,672	71,545,372	1,188,300	
10	Civil Service Commission.....	5,321,890	5,224,776	97,114	
11	Defence Production.....	42,609,117	41,564,748	1,044,369	
12	Economic Council of Canada.....	167,000	164,824	2,176	
13	Emergency Measures Organization.....	10,129,340	6,942,249	3,187,091	
14	External Affairs.....	99,821,148	97,022,596	2,798,552	
15	Finance.....	1,417,056,452	1,406,434,612	10,621,840	
16	Fisheries.....	24,996,794	23,716,314	1,280,480	
17	Forestry.....	45,777,416	41,815,947	3,961,469	
18	Governor General and Lieutenant-Governors.....	541,550	524,159	17,391	
19	Industry.....	1,375,033	696,257	678,776	
20	Insurance.....	1,437,266	1,435,005	2,261	
21	Justice.....	14,172,978	13,953,639	219,339	
	Office of the Commissioner of Penitentiaries.....	31,702,935	27,042,353	4,660,582	
22	Labour.....	(2)362,382,615	280,383,807	27,085,808	54,913,000
23	Legislation.....	13,052,796	12,923,599	129,197	
24	Mines and Technical Surveys.....	71,056,872	67,759,325	3,297,547	
25	National Defence.....	1,728,882,707	1,683,471,003	45,411,704	
26	National Film Board.....	5,744,000	5,743,931	69	
27	National Gallery of Canada.....	1,082,400	1,067,949	14,451	
28	National Health and Welfare.....	1,205,902,092	1,203,854,597	2,047,495	
29	National Research Council, including the Medical Research Council.....	48,109,800	47,259,773	850,027	
30	National Revenue.....	84,894,871	82,995,521	1,899,350	
31	Northern Affairs and National Resources.....	86,828,063	77,334,019	9,269,044	225,000
32	Post Office.....	207,908,369	206,894,516	1,013,853	
33	Privy Council.....	3,275,009	2,929,115	345,894	
34	Public Archives and National Library.....	1,144,748	1,112,723	32,025	
35	Public Printing and Stationery.....	2,236,226	2,147,045	89,181	
36	Public Works.....	176,419,791	167,000,704	9,419,087	
37	Office of the Representation Commissioner.....	37,006	37,006		
38	Royal Canadian Mounted Police.....	67,560,231	66,899,479	660,752	
39	Secretary of State.....	8,673,139	7,568,044	1,105,095	
40	Trade and Commerce.....	74,283,763	73,584,061	699,702	
41	Transport.....	397,625,107	373,173,445	24,451,662	
	Canadian Maritime Commission.....	49,840,904	49,744,669	96,235	
	National Harbours Board.....	4,162,900	339,760	3,823,140	
42	Veterans Affairs.....	340,242,850	333,739,881	6,502,969	
		(3)7,101,308,355	6,872,401,519	173,768,836	55,138,000

⁽¹⁾ Available for expenditure in 1964-65.

⁽²⁾ Includes amount carried forward from 1962-63 appropriations \$26,737,268.

⁽³⁾ In addition, parts of appropriations in respect of the following departments and expenditures in similar amounts were transferred to "Other Loans and Investments", as follows: Agriculture \$3,585,219 and National Health and Welfare \$4,000.

H. R. BALLS,

Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1964.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

AUDITOR GENERAL'S REPORT

Section	Department	Tax revenues	Return on investments	Bullion and exchange	Premium, discount and exchange	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscellaneous	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	Agriculture.....											
2	Atomic Energy.....		258,603									
3	Auditor General's Office.....		235,831				1,641,342	1,979,002	6,403,060	191,529	45,567	10,519,103
4	Board of Broadcast Governors.....								7,331			235,831
5	Canadian Broadcasting Corporation.....									758	304	1,062
6	Central Mortgage and Housing Corporation.....		85,525,349					184		130,856		131,040
7	Office of the Chief Electoral Officer.....							4,887,474		251,199		91,425,213
8	Citizenship and Immigration.....		44,927							565		104,063
9	Civil Service Commission.....						961,154	53,073	131,458	219,430		1,600,425
10	Defence Production.....		4,252,165									65
11	Emergency Measures Organization.....									15,269	9,258	16,866,835
12	External Affairs.....						1,355	12,436,072	152,710	190,619	89,050	299,372
13	Finance.....		1,303,330				16,896	2,038	769	190,619	16,600	2,548,923
14	Fisheries.....		257,761,153				972,681	16,308	12,084	227,920		2,548,923
15	Forestry.....		466,990		232,234			42	944,935	1,210,314	550,764	270,416,522
16	Insurance.....		79				124,659	176,758	24,623	61,465	47,328	901,823
17	Justice.....	90,092					101,506	30,388	3,551	35,204	358	171,086
18	Office of the Commissioner of Penitentiaries.....						2,178,427	54	820,733		270	911,095
19	Labour.....		245,565				70,051	665,967	516,809	33,384	311,764	3,040,438
20	Legislation.....		5,962					13,930	33,888			1,036,493
21	Mines and Technical Surveys.....						1,681	1,055	842,807		1,111,101	1,962,606
22	National Defence.....		336,431				125,965	386,907	3,876	606	4,248	134,695
23	National Film Board.....		755,514				27,563	18,278	18,278	15,325	17,011	801,515
24	National Gallery of Canada.....						1,795,072	3,853,918	2,652,441	18,856,377	2,779,624	30,692,576
25	National Health and Welfare.....									18,340		18,340
26	National Research Council, including Medical Research Council.....		44				315,299	147,060	4,403,435	3,509	80	3,589
27	National Revenue.....	5,533,439,913								456,467	62,543	5,384,848
28	Northern Affairs and National Resources.....	1,777										
29	Post Office.....		409,125				211,873	66,283	275,706	89,066	734	89,841
30	Privy Council.....		805			200,717,142	4,855,511	572,460	539,806	3,161	1,423,315	5,535,421,181
31	Public Archives and National Library.....							23,517		434,352	157,952	6,971,013
32	Public Printing and Stationery.....		559							6,723	26,067	200,774,254
33	Royal Canadian Mounted Police.....						68,413	1,762,618	6,353	1,233	5,056	6,289
34	Secretary of State.....		16,396				1,934,401		3,947	3,947	78	10,837
35	Trade and Commerce.....						1,934,401		526,246	58	32,996	1,864,085
36	Transport.....		4,646,395				733,400	408,773	526,246	316,729	177,954	3,286,343
37	Veterans Affairs.....		2,767,009				408,972	3,202	142,632	229,675	124,665	16,368,647
38			7,379,359				408,972	3,202	142,632	229,675	124,665	16,368,647
39							408,972	3,202	142,632	229,675	124,665	16,368,647
40							408,972	3,202	142,632	229,675	124,665	16,368,647
41							408,972	3,202	142,632	229,675	124,665	16,368,647
42							408,972	3,202	142,632	229,675	124,665	16,368,647
		5,533,531,782	366,412,592	9,717,080	232,234	200,717,142	27,172,568	28,444,672	51,321,056	26,839,307	8,815,606	6,253,204,039

Auditor General's Certificate

Comptroller of the Treasury

H. R. BALIS,

A. M. HENDERSON,
Auditor General

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1964.

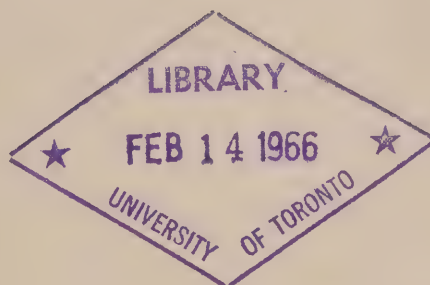
(The sections referred to in the above Summary are those in the Public Accounts, Volume II)



CANADA

**REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS**

**for the
FISCAL YEAR ENDED MARCH 31
1965**





CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS

for the
FISCAL YEAR ENDED MARCH 31
1965

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(as published in the Public Accounts)

1. Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965 (with comparative figures for the preceding fiscal year).....	228
2. Statement of Assets and Liabilities as at March 31, 1965 (with comparative figures as at March 31, 1964).....	230
3. Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1965.....	232
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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, R.S., c. 116.

2. In accordance with the requirement of section 70 of the Act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1965. Subsection (1) of the section reads:

The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main Classifications and Departments, both as included in the 1965 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Standing Committee on Public Accounts

4. In my Report to the House of Commons for the year ended March 31, 1964 which was tabled on February 16, 1965, I was pleased to state that this was the first time in recent years that the Public Accounts Committee completed its examination of the Auditor General's Report to the House of Commons before a succeeding report had been tabled.

The Committee last met on March 15, 1965 when it approved its Ninth Report 1965 to the House on the Form and Content of the Public Accounts. No meetings have been held by the Committee since nor has my 1964 Report been referred by the House to the Committee for study.

A summarized listing was given a year ago detailing the fifty recommendations and observations made by the Committee which had not been implemented or otherwise dealt

with by Executive action at that time. Since then, action has been taken by the Executive on ten of these recommendations, details of which will be laid before the Committee when it next convenes. The remaining forty recommendations and observations not yet implemented are again listed in Appendix 1 of this Report.

The ten recommendations on which action has been taken dealt with the following matters:

Fourth Report 1964

Advertising costs

Educational leave costs

Payment of maintenance expenses of Civil Service Recreational Association Centre

Fifth Report 1964—Canadian Broadcasting Corporation

Annual report

Statement of Operations

Size of operating and capital requirements

Authority of Comptroller over Regional Accountants

Sixth Report 1964

Lease termination payments

Superannuation Accounts

Eighth Report 1964

Employment of part-time doctors by Department of Veterans Affairs

In addition, there was partial implementation of the Committee's recommendations respecting the form and content of the Estimates (Fourth Report 1964), accounts receivable (Sixth Report 1964), surplus assets disposal (Seventh Report 1964) and amendments to the Customs Act and the Excise Tax Act (Eighth Report 1964). Details will be found in paragraphs 9, 168, 195 and 90 of this Report.

Summary of Employees Authorized for the Public Service

5. Appendix 3 shows that the two largest items of expenditure continue to be interest on the public debt totalling \$1,051 million and civil salaries and wages amounting to \$952 million, which together represent almost 28% of the total budgetary expenditure for the year. The public debt charge is the subject of a detailed appendix in the Public Accounts. With respect to civil salaries and wages, this Report again contains a summarized list (Appendix 2) showing the number of employees authorized and on strength in the public service by departments, Crown corporations and other instrumentalities at March 31, 1965 compared with the number at the close of the preceding year.

It will be noted from Appendix 2 that only 6 out of the 35 departments shown reported a reduction in the number of employees on strength at March 31, 1965 compared with the situation at the close of the preceding year. The strength of one small department remained unchanged. On the other hand, the remaining 28 departments reported staff increases at March 31, 1965 over March 31, 1964 of 7,228 employees or 6%.

Scope of the Audit

6. Examinations of the departmental accounts for the year ended March 31, 1965 were made in conformity with section 67 of the Financial Administration Act which reads:

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

In my Report last year I mentioned the extent to which staff recruitment difficulties had continued to handicap the work of the Audit Office but expressed the hope that it would be possible to increase the scope of the work before March 31, 1965 and to see the full effect of this improvement in the fiscal year 1965-66.

Although the working strength of the Audit Office is still short of the establishment approved with effect from October 1, 1964, the Office has managed to increase and diversify the scope of its work during the past year. The extent to which this can be developed further will depend on the success that can be achieved in filling the establishment vacancies over the next few months.

Our examinations continued to include a general review of accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those corporations and other instrumentalities listed in paragraph 183 whose accounts were subject to examination by other auditors.

The accounts relating to the receipts and disbursements of the Office of the Auditor General were examined by an officer of the public service nominated for the purpose by the Treasury Board, as required by section 75 of the Financial Administration Act. In this connection, the Public Accounts Committee, in its Eighth Report 1964 (see Appendix 1, item 40) has recommended that this section of the Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations

and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has continued to follow its practice of addressing detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations during the year. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Matters dealt with in these reports that are considered to be of interest to the House of Commons are referred to in the relevant sections of this Report.

Findings of Royal Commission on Government Organization

7. In my 1963 Report to the House I outlined my concept of the responsibilities of the Auditor General to Parliament with regard to those findings of the Royal Commission on Government Organization (1960 to 1963) relating to outdated procedures, uneconomical operations and wasteful practices. I stated that to the extent its reports correctly indicated where and how savings of public funds could be made, I believe the Auditor General has a responsibility to Parliament to follow through and ascertain what action has been or will be taken toward achieving such savings. In its Fourth Report 1964 the Standing Committee on Public Accounts expressed the opinion that this concept of the responsibilities of the Auditor General is in accord with the intent and wishes of Parliament.

It is important first to distinguish between a finding of this Royal Commission and a recommendation. A finding is an observation or critical comment made in the reports on a specific situation or condition existing in the public service as distinct from a recommendation which, in the Commission's view, is calculated to remedy one or more individual finding. Throughout the reports there are an estimated 276 specifically worded recommendations. On November 5, 1963 the Government approved 68 of these recommendations and on February 9, 1965 approved 32 more, leaving 176 yet to be dealt with.

We have made a study in depth of each of the 24 reports of the Royal Commission. Excluding Report 19 dealing with the Canadian Broadcasting Corporation to which we refer in paragraph 187, our study disclosed over one thousand individual findings. The majority of these related to policy or organizational practices where, for example, more efficient results might be achieved by rearrangement of the existing procedures or organization without necessarily saving public funds. The remainder—approximately 450 findings—dealt with specific situations or conditions involving outdated procedures, uneconomical operations and wasteful practices, elimination or remedy of which would not only improve efficiency but could result in substantial savings of public funds. Each of these individual findings has been followed through by the staff of the Audit Office to ascertain what action has been or will be taken toward achieving such savings.

In order to make our enquiry as broad as possible, we selected 32 departments and agencies whose operations had been studied by the Royal Commission three years ago

and where the conditions giving rise to the 450 findings existed. The enquiry, which was carried out in the course of our regular audit work, involved seeking answers to over 900 questions at the appropriate levels in the departments and agencies. The results were as follows:

Condition still exists—		
No action taken.....	39%	
Said to be "under study".....	34%	
	—	73%
Condition "remedied".....		24%
Disagreed with the findings.....		3%

The largest single set of findings checked were those contained in Report 4, "Paperwork and Systems Management", 148 of which we discussed with officials of 23 departments and agencies. The answers received conformed with the results obtained from our enquiries into the findings disclosed in the other reports. They demonstrated that with respect to a number of important findings, effective action cannot be taken at the departmental level until basic decisions are taken by top management. For example, greater decentralization of authority would enable the heads of departments and agencies to take more positive steps to correct prevailing practices and thereby effect savings without diminishing efficiency. We found no lack of awareness at the various departmental levels of the need to deal with these situations. It was explained to us, however, that few changes could be made without instructions from top management. It must be added here that in many instances top management is itself unable to issue these instructions because a number of the practices and procedural processes under criticism have their origin in statutes which only Parliament can change.

We found this also to be largely the case with findings disclosed in Report 3 dealing with "Personnel Management". Our review of these findings led us to the conclusion that most of the conditions criticized by the Royal Commission concerning the practices of the Civil Service Commission do in fact continue to exist. With certain reservations, the Commission has indicated its agreement with this conclusion.

The 100 recommendations selected by the Government for approval up to February 9, 1965 included several that are proving time-consuming and costly to implement. The most important of these recommendations were made under the headings of Planning and Expenditure Control in Report 2 on "Financial Management" where the Royal Commission recommended that departmental estimates be prepared on the basis of programs of activity instead of by standard objects of expenditure, and that departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources at their disposal.

The implementation of basic changes such as these in an organization the size of the Government of Canada requires extensive study and specialized work at many levels to ensure that the changes will in fact produce the desired result. Considerable effort has been and continues to be expended both by the Treasury Board staff and departmental manage-

ments in working toward this objective. Since the Royal Commission made its recommendations nearly three years ago, over 30 special projects and studies have been carried out or are in process involving studies of individual departmental operations by firms of management consultants. The general object of these studies is not only to determine how to adapt the specific operations of certain departments and agencies to meet the recommendations made by the Commission, but also how to achieve the maximum in operational efficiency. A number of these studies, carried out jointly with senior departmental officials, are laying an excellent groundwork for improved management training and the introduction of more modern techniques, particularly in the financial and accounting areas. The cost of these outside services up to the present is estimated at \$1.5 million.

The cost of the Royal Commission itself was approximately \$3 million in the period 1960 to 1963. Thus a substantial sum has already been spent in endeavouring to bring the government organization into line with modern standards and practices. The task is far from complete and obviously more expenditure will be incurred.

It is not possible to place any figure on the total savings achieved to date through remedial action already taken, nor is it possible even to estimate the extent of such savings at this stage. Since the Royal Commission concluded its work three years ago, administrative overhead in departments and agencies has risen substantially in terms of staff needs and office costs. In the 1962-63 fiscal year this was to the order of \$1,000 million. The comparable figure estimated for 1965-66 is \$1,200 million, an increase of 20% over the three-year period. As mentioned in paragraph 5 of this Report, the staffs of 28 of the 35 departments shown in Appendix 2 have increased in size by 7,228 employees or 6% during the past year.

There is no question that it is desirable that steps be taken to improve the Estimates presentation to provide Parliament with better information, and to proceed with large organizational changes designed to improve efficiency. Nevertheless, the fact remains that more immediate action directed at abolishing or otherwise correcting the conditions disclosed by the Commission relating to outdated procedures, uneconomical operations and wasteful practices that still exist could result in appreciable savings in public funds now.

In my opinion this could be achieved if greater priority were given by top management to tackling these conditions. Many of the 276 recommendations of the Royal Commission were designed to remedy these conditions. Whether they will or not, it would clearly be of material assistance to management if the 176 recommendations still outstanding could be dealt with as quickly as possible.

Internal Control

8. A fundamental part of any audit is a critical review of the accounting and internal controls within the organization. This embraces the entire system of controls, financial and otherwise, established by management in order to carry out operations in an orderly and efficient manner, to ensure adherence to prescribed managerial policies, to safeguard the assets for which management is responsible, and to check as far as possible the accuracy and reliability of its records.

The reports of the Royal Commission on Government Organization and of the management consultants previously referred to provide the Audit Office with helpful information in determining the degree of reliance which can be placed on the system of internal control in the departments and agencies. The recent institution by the Treasury Board of a new series of management improvement directives to departments and agencies is also of material help to the Office.

An important feature of effective internal control is the provision made for management to review the financial operations at regular and frequent intervals by means of interim reports, operating summaries and other related financial and statistical information. Comparison of results with those of previous periods may indicate discrepancies that call for further examination and, where budgetary controls are in use, attention is drawn to important variances on which explanations may be required. Thus managerial supervision and review of this nature is an essential element in any effective control.

Since 1960 I have recommended more accurate cost determination, wider use of effective periodic statements and the employment of other modern techniques whereby departmental management could improve control over the costs for which it is responsible. The importance of these points was stressed by the Royal Commission on Government Organization in Volume 1 of its reports published on September 6, 1962, and it is particularly encouraging to note the recognition now being given to these points by top management.

Internal auditing is an integral part of a department's system of management control. It is first and foremost a management tool to ensure good performance and therefore it should be carried out under the exclusive direction of senior departmental management if it is to function to best advantage. It is important to the external auditor in determining the scope of his work because where the internal auditor's work is effectively carried out, the amount of work to be performed by the external auditor can usually be substantially curtailed. Consequently, in his capacity as the external auditor, the Auditor General is particularly interested in the degree of management's acceptance of the findings and recommendations of its internal auditor and in the action taken.

In my opinion, greater progress could be made in recognizing the importance of internal audit. While a number of the larger departments and Crown corporations possess their own staffs, a number have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern practice requires.

The solution of these problems does not lie in engaging more staff but in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, Crown corporations and other agencies.

Form and Content of the Estimates

9. The Public Accounts Committee last reported on the form and content of the Estimates in its Fourth Report 1964, presented to the House on July 28, 1964. Its recommendations and observations at that time will be found in Appendix 1, item 6.

It will be noted that the Committee recommended adoption of the revised vote pattern proposed by the Treasury Board for introduction in the Main Estimates 1964-65, subject to certain improvements suggested by the Auditor General to the Committee at that time. The revised vote pattern was duly adopted in the Main Estimates 1964-65 and this made it possible to transfer funds between services with the Treasury Board's approval which would not have been possible under the former vote pattern. The vote pattern actually used in the Estimates differed in certain instances from the pattern which had been submitted to and approved by the Public Accounts Committee. Details of these differences and examples of transfers made possible by the revised vote pattern are contained in paragraph 51.

The Committee also recommended the inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services so as to provide better information to the House with respect to the nature of the fiscal requirements of the corporations and other agencies requiring financing by parliamentary appropriations. However, this recommendation has not yet been implemented. Additional information concerning the staffs of all government departments and Crown corporations has been placed in the Main Estimates, 1965-66.

We understand that the Treasury Board, as a result of its consideration of the recommendations of the Royal Commission on Government Organization, expects to submit proposals to the Public Accounts Committee in due course designed to present the Estimates of a number of departments on a program and activity basis with a view to having this replace the present objects of expenditure basis over a period of time.

It should be pointed out that a change of this type in the form of the Estimates will not only require changes in many of the accounting procedures but will necessitate changes in a number of the financial statements. This will result because the form of the Estimates determines in large measure how the subsequent accounting for expenditure is maintained and reported in the Public Accounts. Both the form and the content of the Estimates are important to the Auditor General because of his responsibilities to Parliament.

Form and Content of the Public Accounts

10. Over the past several years I have recommended that consideration be given to summarizing or otherwise reducing the number of detailed listings included in the Public Accounts. I have also pointed out additional important information which should be disclosed.

The form and content of the Public Accounts were reviewed by a sub-committee of the Public Accounts Committee in 1964 when consideration was given both to my recommendations and to those put forward by the Comptroller of the Treasury. Following the sub-committee's study of the Public Accounts for 1962-63, the Public Accounts Committee included the following in its Ninth Report 1965 presented to the House on March 15, 1965:

RECOMMENDATIONS FOR DELETION

3. Based on the above findings and observations [of the sub-committee], your Committee recommends that the following information be deleted from Volume II of the Public Accounts:

	Estimated savings
(a) listings of salary rates and travelling expenses of employees (Section 38).....	92 pages
(b) listings of payments to suppliers and contractors (Section 39).....	65 pages
(c) listings of names of persons on educational leave (e.g., Section 1.4) (See also para. 15).....	3 pages
(d) listings of construction or acquisition of buildings, works, and land by area, region, etc. (e.g., Section 7.11).....	12 pages
(e) statements of assistance to gold mining companies (Section 19.15) on the understanding that the information continues to be included in the departmental report.....	5 pages
(f) statement of expenditures by staff post offices for salaries, etc., and statement of expenditures by postal districts and services (Section 27.4 and 27.8).....	3 pages
(g) listings of contracts for construction or acquisition of buildings, etc., when the amount is less than \$100,000, and for cost plus contracts under \$10,000. The present listings are for amounts of \$10,000 or over (\$25,000 or over for defence contracts) and \$5,000 or over for cost plus contracts (e.g., Sections 31.61 and 35.34).....	149 pages
(h) distribution of expenditure by services and units of the Standards Branch (Section 34.7).....	1 page
	<hr/> 330 pages <hr/>

Your Committee further recommends that listings of the travelling expenses of employees in excess of \$1,000 and of payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the Committee.

4. Your Committee recommends that the following detailed information be replaced by statements in summary form:

	Estimated savings
(a) listings of professional fees by type of service, together with detailed listings of professional fees of \$2,000 and over (e.g., Section 1.13).....	9 pages
(b) detailed listings of the acquisition of equipment; to be replaced by summarized listings according to type of equipment (e.g., Section 1.9).....	8 pages
(c) details of expenditures for general elections and by-elections by electoral districts; a summary by provinces to be retained (Section 6.4).....	12 pages

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	Estimated savings
(d) listings of doctors receiving fees of \$1,000 or over and hospitals receiving \$5,000 or over; to be replaced by a summary by categories of service (e.g., Section 23.39).....	5 pages
(e) details of expenditures by provinces and district re any census of Canada; to be replaced by a summary listing by provinces (Section 34.9 to 34.38, 1961-62 Public Accounts).....	28 pages
(f) listing of salaries of Judges by Courts; to be replaced by a summarized statement of salary rates (Section 16.4 and Section 16.5).....	1 page
(g) distribution of revenues and expenditures by Penitentiaries; to be replaced by a statement by institution showing (1) revenue and (2) expenditure on (a) operation and maintenance and (b) construction, improvements and equipment (Section 16.17).....	2 pages
	65 pages

5. Your Committee recommends that the following material be deleted from the Public Accounts if and when substantially similar information is published in the annual reports of the appropriate departments:

	Estimated savings
(a) statements of payments of general health grants to provinces from inception (Section 23.8).....	2 pages
(b) listing of grants to agricultural fairs, exhibitions, etc. (e.g., Section 1.19).....	2 pages
(c) details of health grants (Section 23.10 to 23.28).....	19 pages
(d) details of hospital construction grants (Section 23.30 to 23.37)....	7 pages
	30 pages

6. In making the foregoing recommendations regarding the deletion of information from the Public Accounts, your Committee understands that the information so deleted would continue to be retained in the accounting records maintained in the Office of the Comptroller of the Treasury and would ask the Minister of Finance to take the necessary steps to ensure that it would be available to Members of Parliament on request.

7. Your Committee has been informed that the cost of printing a page of the Public Accounts is \$25. The recommended deletions would eliminate approximately 400 pages from each of the English and French versions, with a resulting saving in printing costs alone of some \$20,000.

RECOMMENDATIONS FOR REARRANGEMENT OF INFORMATION

8. Your Committee recommends that in Volume I the explanatory notes to the schedules to the Statement of Assets and Liabilities, which are now presented immediately following

the schedules to which they refer, be grouped together and printed at the end of the schedules, with appropriate reference to the schedule and item, e.g., for Item 1 of Schedule M, the note would be described as M-1, etc.

RECOMMENDATIONS FOR THE INCLUSION OF ADDITIONAL INFORMATION

9. Your committee gave consideration to the inclusion of additional important information in the Public Accounts along the lines suggested by this Committee and the Auditor General.

10. In its Fourth Report 1964, presented to the House on July 28, 1964, in paragraphs 30-32, this Committee requested the Auditor General to keep it informed as to the progress of a study being made for the purpose of having all costs of financial assistance to persons on educational leave assembled in one place so that Parliament might be better informed as to the total cost of this particular phase of the educational program designed to increase the capacity of public servants. Your Committee expresses the hope that this study will be completed shortly so that the total educational leave costs may in future be shown with respect to each department in Volume II of the Public Accounts, commencing with that for the fiscal year 1964-65.

11. In its Sixth Report 1964, presented to the House on October 20, 1964, in paragraph 26, the Committee recorded its agreement with the Auditor General's observation that it would be informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts of Canada each year. Following consideration of this recommendation by the Comptroller of the Treasury, your Committee was pleased to be advised by the Comptroller of the Treasury that arrangements are under way for the inclusion of such a summary in the Public Accounts effective for the fiscal year 1964-65.

12. Your Committee recommends that the following additional information suggested by the Comptroller of the Treasury be included in the Public Accounts:

- (1) In Volume II, the overall summaries of expenditures and revenues by departments to be published at the beginning of the volume, the totals of which would agree with the amounts included in the Statement of Expenditure and Revenue shown in Volume I.
- (2) In Volume II, for each department there be included a statement similar to that now presented in the Estimates, showing the approximate or estimated value of major services provided to the department, the cost of which is not included as a charge to the departmental appropriations. This statement would include:
 - (a) accommodation provided by the Department of Public Works or in the department's own buildings;
 - (b) accounting and cheque issue services provided by the Comptroller of the Treasury;
 - (c) contributions to the Superannuation Account charged to the Department of Finance appropriations;
 - (d) employee surgical-medical insurance premiums charged to Department of Finance appropriations;
 - (e) employee compensation payments charged to Department of Labour appropriations; and
 - (f) carrying of franked mail by the Post Office Department.
- (3) A similar statement showing the services provided to other departments for which no reimbursement is received also to be included for each department.

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13. The above plan to include a statement in each departmental section showing the approximate or estimated value of major services provided without charge is only a preliminary step. It is understood that the ultimate aim would be to apportion these service costs to the relevant votes or services.

14. Your Committee recommends that the following additional information suggested by the Auditor General be included in Volume II of the Public Accounts:

- (1) effective for the fiscal year 1964-65, a statement of all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal by Crown Assets Disposal Corporation; and
- (2) effective for the fiscal year 1964-65, a statement detailing the amount of losses incurred as a result of the accidental destruction of or damage to assets which would normally be covered by insurance had such coverage existed.

15. Your Committee recognized in the course of the discussions with the Comptroller of the Treasury and the Auditor General that the possibility exists that the inclusion of further additional information in the Public Accounts might be desirable from time to time and endorses their suggestion that this be placed in the Public Accounts by the Comptroller or be brought forward by the Auditor General for discussion and consideration by this Committee.

With the exception of the recommendation contained in paragraph 14 (1) above, all of the foregoing recommendations have been implemented by Executive action during the year and given effect to in the Public Accounts for 1964-65. A Treasury Board directive dated January 21, 1965 provides that the statement of material declared surplus, called for by paragraph 14 (1), will be included in the Public Accounts for the fiscal year 1965-66.

Office of the Auditor General

11. In last year's Report mention was made of the manner in which the required staff establishment of the Audit Office was assessed at 220 employees which was approved effective October 1, 1964. At that date actual working strength totalled 173. It was 193 at November 30, 1965.

The Office is thus 27 employees short of its establishment, a condition which is placing a heavy burden on the Office in carrying out its responsibilities. As already mentioned, the Office has nevertheless managed to increase and diversify the scope of its work while every effort is being made by the Civil Service Commission toward filling the vacant positions as speedily as possible.

The Public Accounts Committee considered the circumstances surrounding this constant staff shortage at some length in 1962 and 1963. In its Fourth Report 1964 presented to the House on July 28, 1964 it recorded its belief that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and the Crown corporations generally. The Committee, noting that amendments to the Financial Administration Act were to be introduced in due course, stated that it believed consideration should be given to appropriate amendments designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office. This situation remains unchanged, no action having been taken yet towards implementing these recommendations.

The position of the Office was greatly strengthened by the action of the Institute of Chartered Accountants of Quebec in June 1964 when this Institute officially recognized the Office of the Auditor General of Canada in the Province of Quebec for the training of a number of students serving in that Province who meet the Institute's educational and other requirements. At the present time six students are serving in this manner in our Montreal office.

This is the first time the Office of the Auditor General of Canada has been accorded such recognition. On behalf of the staff of the Office, I should like to record our appreciation of this action on the part of the Quebec Institute which should go far toward raising the prestige and standards of the Office now and in the years ahead.

Recognition along similar lines is actively under consideration by the Institute of Chartered Accountants of Ontario.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The statement shows a deficit of \$38 million for the year. By comparison, there were deficits of \$619 million in the preceding year and \$692 million in 1962-63.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1965, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,412 million, expenditures of \$7,218 million and unexpended balances of \$194 million.

14. Of the \$7,412 million of appropriations available for expenditure in the year, \$3,052 million was provided by continuing statutory authorities and \$4,305 million was granted by Appropriation Acts (Nos. 1, 5, 6, 8, 9, 10 of 1964 and No. 2 of 1965) while \$55 million remained available from continuing 1963-64 appropriations (Department of Labour Votes 32d and 34d).

Of the \$7,218 million of expenditure during the year, \$3,052 million (42%) was incurred under the continuing statutory authorities, with \$4,166 million (58%) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the \$194 million of unexpended balances at the year-end, \$152 million lapsed in compliance with section 35 of the Financial Administration Act and \$42 million of Department of Labour Votes 6b (winter works incentive program), 8b (winter house building incentive program) and 5d (older worker employment and training incentive program) remained available for expenditure in 1965-66 because of the special wording of the appropriations.

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15. The lapsed balances of \$152 million represented 3.5% of the \$4,360 million of appropriations under Appropriation Acts. This compares with lapsed balances at the close of the preceding year representing 4.1% of the amounts available in that year and 2.3% of the amounts appropriated in 1962-63 under interim supply Appropriation Acts and by Governor General's special warrants. In the following cases the lapsed balances represented more than 10% of the appropriations under Appropriation Acts:

	Appropriations	Lapsed Balances	
		Amount	%
Emergency Measures Organization.....\$	10,296,000	\$ 2,642,000	26
Labour.....	307,297,000	46,161,000	15
Northern Affairs and National Resources.....	89,073,000	13,192,000	15
National Harbours Board.....	8,853,000	1,276,000	14

16. The following table summarizes the expenditure, by departments, for the fiscal year 1964-65 with the corresponding amounts for the two previous years:

Department	1962-63	1963-64	1964-65
Agriculture.....\$	183,427,000	\$ 225,681,000	\$ 165,724,000
Atomic Energy.....	63,205,000	45,955,000	46,565,000
Canadian Broadcasting Corporation...	80,816,000	87,576,000	87,969,000
Citizenship and Immigration.....	66,115,000	71,545,000	82,358,000
External Affairs.....	85,197,000	97,023,000	131,187,000
Finance.....	1,354,780,000	1,406,435,000	1,588,075,000
Forestry.....	16,175,000	41,816,000	49,754,000
Justice.....	37,021,000	40,996,000	53,529,000
Labour.....	348,292,000	280,384,000	283,725,000
Mines and Technical Surveys.....	71,130,000	67,759,000	75,238,000
National Defence.....	1,571,044,000	1,683,471,000	1,535,635,000
National Health and Welfare.....	1,122,448,000	1,203,855,000	1,297,586,000
National Research Council, including Medical Research Council.....	40,597,000	47,260,000	56,642,000
National Revenue.....	78,725,000	82,996,000	86,909,000
Northern Affairs and National Resources	86,377,000	77,334,000	80,895,000
Post Office.....	189,344,000	206,895,000	210,459,000
Public Works.....	149,735,000	154,843,000	224,510,000
Royal Canadian Mounted Police.....	65,424,000	66,899,000	76,199,000
Trade and Commerce.....	65,768,000	73,584,000	90,043,000
Transport.....	416,019,000	423,258,000	466,948,000
Veterans Affairs.....	335,602,000	333,740,000	353,038,000
Other departments.....	143,101,000	153,096,000	175,287,000
	<u>\$ 6,570,342,000</u>	<u>\$ 6,872,401,000</u>	<u>\$ 7,218,275,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the variation between the departmental totals listed above for 1963-64 and 1964-65.

17. *Agriculture.* The decrease of \$60 million or 27% in expenditure by this Department was more than accounted for by the decrease of \$65 million—from \$122 million to

\$57 million—in the amount appropriated for the net operating loss of the Agricultural Stabilization Board. The \$50 million reduction in valuation of inventories held by this Board at March 31, 1964 had no counterpart in 1964-65. Other variations were increases of \$2 million in outlays on rehabilitation and reclamation projects and \$1 million in the operating requirements of research establishments.

18. *Atomic Energy.* The net increase of \$600,000 under this heading reflects an increase of \$400,000 in contributions, grants and subsidies by the Atomic Energy Control Board, an increase of \$3.4 million in operating expenditure and a decrease of \$3.2 million in the capital expenditure of Atomic Energy of Canada Limited.

19. *Canadian Broadcasting Corporation.* Expenditure in 1964-65 shows an increase of only \$400,000 because the Corporation's capital requirements in 1964-65 were financed by means of loans instead of grants. Had the loans of \$14 million been charged to expenditure on a basis consistent with preceding years, expenditure on behalf of the Corporation would have reflected an increase of \$15 million or 17% over the previous year (see paragraph 55).

20. *Citizenship and Immigration.* The increase of \$11 million or 15% in expenditure by this Department was due mainly to increased expenditure by the Immigration Branch of \$1 million (37%) on transportation and other assistance for immigrants and settlers, and to increased expenditure by the Indian Affairs Branch of \$9 million (16%) as follows: Indian Agencies, \$1 million (15%); welfare, \$3.1 million (23%); education, \$4.4 million (14%); and community employment, \$1.5 million (748%); partly offset by a decrease of \$1 million (27%) for economic development.

21. *External Affairs.* Expenditure by this Department increased by \$34 million (35%) due mainly to an increase of \$33 million (68%) in assistance to other countries.

22. *Finance.* There was an increase of \$182 million or 13% in expenditure by this Department due mainly to: an increase of \$104 million (41%) in subsidies and other payments to provinces, including increased payments of \$91 million (41%) under the Federal-Provincial Fiscal Arrangements Act, 1960-61, c. 58; an increase of \$58 million (6%) in interest paid on public debt; and a charge of \$10 million in respect of a special contribution to the Public Service Superannuation Account.

23. *Forestry.* Expenditure by this Department increased by \$7.9 million or 19%. Expenditure in respect of projects and programs under the Agricultural Rehabilitation and Development Act, together with payments to provinces pursuant to agreements under that Act, increased by \$5.2 million (130%). An increase of \$1 million (11%) in administration, operation and maintenance costs was largely due to salary and wage increases. Construction costs increased by \$1 million (45%) due mainly to the construction of an extension to a research laboratory at Pointe Claire, Que.

24. *Justice.* Of the total increase of \$13 million (31%) in the expenditure of this Department, \$11 million represented an increase of 40% in expenditure on correctional services. This comprised an increase of \$7.7 million (129%) for construction and improvement of institutions and \$3.5 million (16%) for administration, operation and maintenance.

25. *Labour.* The increase of \$3 million or 1.2% in expenditure by this Department was largely accounted for by payments of \$16 million under the winter house building incentive program and \$1 million under the older worker employment and training incentive program, for which there were virtually no comparable expenditures in the preceding year, together with increases of \$16 million (60%) in payments under the municipal winter works incentive program, \$5 million (11%) in the cost of administering the Unemployment Insurance Act, and \$3 million (5%) in the Government's statutory contribution to the Unemployment Insurance Fund, offset by a decrease of \$39 million in payments to the provinces to provide assistance for technical and vocational schools and training programs.

26. *Mines and Technical Surveys.* Expenditure in this Department increased by \$7.5 million or 11%. The significant increases were \$3 million (16%) in connection with the movements of coal (Dominion Coal Board) and \$2 million (29%) in respect of the activities of the Marine Sciences Branch.

27. *National Defence.* The expenditure of \$1,536 million in 1964-65 is the net amount after deducting from gross expenditure \$7 million derived from the sale of surplus materials, supplies and equipment. The expenditure was \$148 million or 9% less than the expenditure in the preceding year. This was mainly accounted for by a decrease in contributions to the Canadian Forces Superannuation Account, \$64 million (47%) and in expenditure of the Royal Canadian Air Force, \$45 million (6%), the Royal Canadian Navy, \$25 million (8%) and the Canadian Army, \$21 million (5%), while an increase was recorded for the Defence Research Board of \$9 million (20%).

28. *National Health and Welfare.* The increase of \$94 million or 8% in expenditure by this Department was due mainly to the introduction, effective September 1, 1964, of the youth allowance program costing \$27 million and increases of \$42 million (11%) in payments pursuant to the Hospital Insurance and Diagnostic Services Act, \$7 million (1.4%) in family allowance payments, \$6 million (15%) in old age assistance payments, \$4 million (14%) in general health grants, \$3 million (16%) in disabled persons allowances and \$2 million (7%) in administration, operation and maintenance costs of medical services.

29. *National Research Council.* The \$9.3 million or 20% increase in expenditure of the Council was due chiefly to an increase of \$6.1 million (35%) in scholarships and grants in aid of research.

30. *National Revenue.* Of the \$3.9 million increase in expenditure by this Department, \$2 million was in the Customs and Excise Division and \$1.9 million in the Taxation Division—an increase of 5% in each case. The increases were due to generally higher administrative costs.

31. *Northern Affairs and National Resources.* Expenditure of this Department increased by \$3.6 million or 5%, although contributions to the provinces to assist in the development of roads leading to resources were less by \$2 million or 25%. National Parks Branch operating costs increased by \$1.2 million (11%) while construction expenditure was up \$1 million (8%). Construction expenditure of the Northern Administration Branch

was down \$2 million (19%) but this was more than offset by an increase of \$3 million (15%) in administrative costs. The Water Resources Branch showed an increase of \$2 million (18%) of which \$1.3 million represented an increase (18%) in contributions to the provinces to assist in the conservation and control of water resources.

32. *Post Office.* The expenditure of this Department increased by approximately \$3.6 million or 2% due largely to increased costs of transporting mail by land and air.

33. *Public Works.* Expenditure by this Department increased by \$70 million (45%). The major item was a net increase of \$35 million (85%) in connection with Trans-Canada Highway construction. There was an increase of \$13 million (17%) for accommodation services, including new costs of nearly \$5 million arising from the transfer of Fort Churchill from the Department of National Defence on April 1, 1964. Harbours and rivers expenditure increased by \$7 million (31%). The transfer of the Northwest Highway System from the Department of National Defence on April 1, 1964 resulted in additional costs of \$8.5 million. Expenses in connection with the construction of an ice control structure in the Montreal harbour area increased to nearly \$6 million as compared with less than \$500,000 in the preceding year.

34. *Royal Canadian Mounted Police.* Expenditure of the Force increased by \$9.3 million or 14%. Of this amount, approximately \$7 million was due to increases in pay and pension benefits, while the balance resulted from general increases in operating costs.

35. *Trade and Commerce.* Expenditure by this Department increased by \$16 million or 22%. Payments to the Canadian Corporation for the 1967 World Exhibition totalled \$18.6 million compared with \$1.1 million in the preceding year. Expenditure by the Dominion Bureau of Statistics increased by \$1.6 million (14%) mainly due to increases in staff, reclassifications and annual salary increments. The Canadian Government Travel Bureau accelerated its program to attract tourists to Canada and the resulting increases in staff and publicity material accounted for most of the \$1 million (27%) increase in expenditure. The Canadian Government participation in the Canadian Universal and International Exhibition, Montreal, 1967 entered the firm planning stage during 1964-65 resulting in increased expenditure of \$680,000 (438%). Payments to the Canadian Wheat Board with respect to carrying costs of temporary wheat reserves decreased by \$5.5 million (14%) to \$34 million.

36. *Transport.* The expenditure of \$467 million by this Department represented an increase of \$44 million or 10%. This was largely accounted for by payments of \$27 million to The St. Lawrence Seaway Authority in reimbursement of the accumulated Welland Canal deficit incurred in the calendar years 1959 to 1964, \$6 million to the National Harbours Board for outlay relating to the Canadian Universal and International Exhibition, Montreal, 1967, and \$9 million—from \$1 million to \$10 million—for the construction of coastal ferries, docks and terminals. Other significant increases were \$3 million—from \$12 million to \$15 million—in payments to the Canadian National Railways in respect of the operating deficits of coastal ferries; \$3 million—from \$21 million to \$24 million—in railway construction subsidies; \$10 million—from \$121 million to \$131 million—in air services, mainly in respect of administration, operation and maintenance of the various facilities;

and \$2 million in refunds of amounts previously credited to revenue in respect of the remission of air route facility fees. Offsetting these increases were reductions of \$4 million (10%) in the deficit of the Canadian National Railways; \$8 million (20%) in capital subsidies for the construction of commercial and fishing vessels; \$3 million—from \$4 million to \$1 million—in respect of the termination of the collection of tolls on Victoria Bridge, Montreal; and \$3 million of interest on the cost of constructing the railway diversion on the Bridge in the preceding year for which there was no comparable expenditure in 1964–65.

37. *Veterans Affairs.* The expenditure of \$353 million by this Department was \$19 million or 6% higher than in the preceding year. This increase was largely accounted for by increases of \$10 million (12%) in war veterans allowances and assistance, \$7 million (4%) in pensions for disability and death and \$1 million (85%) in expenditure for hospital construction, improvements and equipment. The increases in allowances and pensions were mainly the result of higher rates put into effect on September 1, 1964.

38. *Other departments.* Expenditure by the "Other departments" totalled \$175 million, an increase of \$22 million or 14%. An increase of \$4 million in expenditure of the Atlantic Development Board included disbursements of \$3.6 million from the newly-established Atlantic Development Fund. Expenditure by the Department of Industry increased by \$4.1 million (21%) due to an increase of \$2.6 million (378%) in administrative costs and an increase of \$1.5 million (8%) in costs of sustaining technological capability in Canadian industry. An increase of \$14 million (190%) in expenditure by the Department of the Secretary of State was mainly due to a special grant of \$10 million to the Canada Council together with an increase of \$3.3 million (86%) in expenditure by the Centennial Commission and transfers to the Centennial of Confederation Fund. The largest decrease was one of \$11 million in expenditure by the Office of the Chief Electoral Officer.

Revenue

39. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1965, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$6,367 million of the total revenue of \$7,180 million.

40. The following table summarizes the revenue, by principal sources, for the past three years:

	1962-63	1963-64	1964-65
Tax revenues—			
Personal income tax.....	\$ 1,744,626,000	\$ 1,865,074,000	\$ 2,103,282,000
Corporation income tax.....	1,182,837,000	1,258,957,000	1,523,815,000
Income tax on dividends, interest, etc., going abroad.....	129,137,000	124,500,000	143,718,000
Sales tax.....	805,971,000	946,055,000	1,204,610,000
Other excise taxes.....	260,378,000	273,415,000	269,082,000
Customs duties.....	644,992,000	581,442,000	622,102,000
Excise duties.....	381,866,000	393,326,000	411,402,000
Estate tax.....	87,143,000	90,671,000	88,625,000
Other tax revenues.....	27,000	92,000	140,000
	5,236,977,000	5,533,532,000	6,366,776,000

	1962-63	1963-64	1964-65
Non-tax revenues—			
Return on investments.....	311,861,000	366,413,000	422,694,000
Net postal revenue.....	192,772,000	200,717,000	230,436,000
Other non-tax revenues.....	137,099,000	152,542,000	160,404,000
	<u>641,732,000</u>	<u>719,672,000</u>	<u>813,534,000</u>
	<u>\$ 5,878,709,000</u>	<u>\$ 6,253,204,000</u>	<u>\$ 7,180,310,000</u>

41. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to \$960 million in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 151.

42. *Income taxes.* Income tax collections for 1964-65 show a net increase of \$522 million over those of the previous year, \$238 million from individuals, \$265 million from corporations and \$19 million from non-residents.

The increases are due principally to the higher levels of income during the year and to the effect during the year of legislation passed in 1963 which moved forward the payment dates for corporation income tax.

43. *Sales tax.* The increase of \$259 million in sales tax over 1963-64 is due in part to the imposition in 1963 of a sales tax (4% effective June 14, 1963, increased to 8% effective April 1, 1964) on building materials, production machinery and equipment. A further 3% tax on these items was levied under the Old Age Security Act effective January 1, 1965.

44. *Other excise taxes.* The following is a summary of excise taxes, other than sales tax, collected during the year ended March 31, 1965, with comparable amounts for the two previous years:

	1962-63	1963-64	1964-65
Cigarettes.....	\$ 195,313,000	\$ 200,211,000	\$ 197,495,000
Manufactured tobacco.....	19,123,000	23,460,000	17,149,000
Phonographs, radios and tubes.....	9,875,000	11,432,000	13,082,000
Toilet articles and preparations.....	10,142,000	11,126,000	12,791,000
Television sets and tubes.....	10,059,000	10,578,000	10,440,000
Jewellery, clocks, watches, chinaware, etc....	5,793,000	6,353,000	6,864,000
Wines.....	3,727,000	3,814,000	4,092,000
Cigars.....	3,372,000	3,267,000	3,700,000
Sundry excise taxes.....	3,350,000	3,505,000	3,816,000
Refunds and drawbacks.....	—376,000	—331,000	—347,000
	<u>\$ 260,378,000</u>	<u>\$ 273,415,000</u>	<u>\$ 269,082,000</u>

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45. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1965, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1962-63	1963-64	1964-65
Cigarettes.....	\$ 157,049,000	\$ 157,054,000	\$ 168,797,000
Spirits.....	122,099,000	129,406,000	134,716,000
Beer.....	98,147,000	102,907,000	105,386,000
Other excise duties.....	9,463,000	8,623,000	8,403,000
Refunds and drawbacks.....	-4,892,000	-4,664,000	-5,900,000
	<u>\$ 381,866,000</u>	<u>\$ 393,326,000</u>	<u>\$ 411,402,000</u>

46. *Return on investments.* The following is a listing of the revenue from the various investments in 1964-65, along with the comparable figures for the two previous years:

	1962-63	1963-64	1964-65
Bank of Canada.....	\$ 96,680,000	\$ 116,386,000	\$ 128,238,000
Central Mortgage and Housing Corporation..	79,925,000	85,525,000	93,349,000
Exchange Fund Account.....	35,227,000	62,594,000	63,552,000
The St. Lawrence Seaway Authority.....	—	2,568,000	43,065,000
Deposits with chartered banks.....	14,395,000	13,702,000	19,639,000
Farm Credit Corporation.....	8,482,000	10,869,000	13,934,000
Canadian National Railways.....	3,824,000	13,018,000	11,601,000
Veterans' Land Act loans.....	6,549,000	7,373,000	8,308,000
Securities Investment Account.....	12,351,000	4,059,000	6,504,000
Loans to National Governments.....	29,272,000	26,301,000	6,383,000
Polymer Corporation Limited.....	3,000,000	3,500,000	4,000,000
National Harbours Board.....	3,631,000	3,475,000	3,425,000
Export Credits Insurance Corporation.....	578,000	1,061,000	3,047,000
National Capital Commission.....	1,776,000	2,319,000	2,858,000
Canadian Overseas Telecommunication Corporation.....	1,971,000	2,586,000	2,706,000
Northern Canada Power Commission.....	1,696,000	1,648,000	2,105,000
Eldorado Mining and Refining Limited.....	3,000,000	2,000,000	1,500,000
Special United States of America securities— Columbia River Treaty.....	—	—	1,150,000
Northern Ontario Pipe Line Crown Corporation.....	4,087,000	1,583,000	—
Other loans and investments.....	5,417,000	5,846,000	7,330,000
	<u>\$ 311,861,000</u>	<u>\$ 366,413,000</u>	<u>\$ 422,694,000</u>

47. The amounts shown for revenue from investment in the Bank of Canada represent annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c.13.

Revenue from Central Mortgage and Housing Corporation for 1964-65 comprised \$89,711,000 (\$80,297,000 in 1963-64) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$3,638,000 (\$5,228,000 in 1963-64) representing the profit for the year ended December 31, 1964 which was transferred to the Receiver General as required by section 30 of the Act.

Revenue from The St. Lawrence Seaway Authority comprised \$43,062,000 paid on account of interest deferred in the years 1959, 1961 and 1962 and current interest of \$3,000. The payment of this interest was possible largely by reason of receipt of \$27,073,000 from Department of Transport Vote 107d to reimburse the Authority in respect of the accumulated Welland Canal deficit for the years 1959 to 1964. An additional \$13,200,000 was available from the proceeds of loans to cover capital expenditure financed initially from operating funds.

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, is earned on deposits with chartered banks in excess of an aggregate of \$100 million.

Interest earned on temporary holdings of securities of Canada in the Securities Investment Account totalled \$5,032,000. A profit of \$886,000 was realized on securities sold and a profit of \$586,000 resulted from the cancellation of certain securities held in the Account.

The reduction of \$19.9 million in interest on loans to National Governments is almost entirely due to the Government of the United Kingdom exercising its option to defer the payment of interest due December 31, 1964 on loans under the United Kingdom Financial Agreement Act 1946.

The increase of \$2 million in revenue from the Export Credits Insurance Corporation results from a substantial increase in advances to enable the Corporation to provide long-term financing for export sales of capital goods.

Revenue of \$1,150,000 on special United States of America securities represents interest to November 1, 1964 at from 4% to 4½% on an investment of \$219.5 million in medium term non-marketable securities of the United States Government acquired on September 16, 1964.

Loans to the Northern Ontario Pipe Line Crown Corporation were repaid in full in 1963-64.

48. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the last three years:

	1962-63	1963-64	1964-65
Gross postal revenue.	\$ 222,300,000	\$ 235,808,000	\$ 263,704,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices.	25,239,000	29,936,000	28,828,000
Other disbursements.	4,289,000	5,155,000	4,440,000
	<u>29,528,000</u>	<u>35,091,000</u>	<u>33,268,000</u>
Net postal revenue.	<u>\$ 192,772,000</u>	<u>\$ 200,717,000</u>	<u>\$ 230,436,000</u>

The amounts shown for "Other disbursements" mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

49. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 40 for "Other non-tax revenues" for 1964-65, with comparable figures for the two previous years, is given in the following table:

	1962-63	1963-64	1964-65
Services and service fees.....\$	46,186,000	\$ 51,321,000	\$ 60,924,000
Proceeds from sales.....	26,531,000	28,445,000	24,250,000
Privileges, licences and permits.....	25,008,000	27,172,000	30,825,000
Refunds of previous years' expenditure.....	22,392,000	26,839,000	20,546,000
Bullion and coinage.....	9,404,000	9,717,000	12,299,000
Miscellaneous.....	7,578,000	9,048,000	11,560,000
	<u>\$ 137,099,000</u>	<u>\$ 152,542,000</u>	<u>\$ 160,404,000</u>

Comments on Expenditure and Revenue Transactions

50. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review are brought to the attention of the House in this Report. Several matters of a similar nature relating to the expenditure and revenue transactions of the Crown corporations are also included in this section of the Report.

51. *Revised vote pattern.* In our 1964 Report (Appendix 1, item 6) reference was made to the Third Report 1963 of the Public Accounts Committee tabled in the House on December 19, 1963 in which it recommended the

adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

The vote pattern actually used in the 1964-65 Estimates differed in certain instances from the pattern which had been considered by the Public Accounts Committee. Three of the more important variations were as follows:

1. While the revised vote pattern indicated that there would continue to be separate appropriations for "Construction or Acquisition of Buildings, Works, Land and Equipment, etc.", these appropriations were combined in a number of instances with the related Administration or Operation and Maintenance votes where the amount involved was small in relation to the amount of those votes.

An exception was the Department of National Defence where the Construction votes were combined with the Operation and Maintenance votes for each of the three Services although more than a relatively small amount was involved. This made possible transfers during the year, with the approval of the Treasury Board, between the

Operation and Maintenance allotments and the Construction allotments in Votes 15, 20 and 25 of amounts of \$40,000, \$850,000 and \$5,675,000 in order to utilize available funds in these allotments.

2. The following provision was added to the Operation and Maintenance and Construction votes of the three Services and to the Defence Research Board Vote 30, for Operation and Maintenance, and Vote 35 for Construction:

including authority, notwithstanding the Financial Administration Act and section 11 of the Surplus Crown Assets Act and subject to the approval of the Treasury Board, to spend revenues received from the sale of surplus materials, supplies and equipment.

Under this provision the proceeds from sales by Crown Assets Disposal Corporation during the year of materials declared surplus by the Department amounting to \$6,959,000 were credited to these appropriations thus supplementing the amounts included in the Estimates.

3. Vote 40 of the Department of Public Works under the heading of "Roads, Bridges and Other Engineering Services" in the revised vote pattern provided for "Construction or Acquisition of Buildings, Works, Land and Equipment as detailed in the Estimates". However, in the 1964-65 Estimates the following provision was added:

the amount within the vote to be expended on individually listed projects may be increased or decreased subject to the approval of Treasury Board.

This provision made possible the transfer of \$450,000 of the \$500,000 which had been included in the appropriation "Towards federal share of the cost of City of Ottawa projects" to another project, "Towards the cost of planning a causeway and associated structures across Northumberland Strait".

The revised vote pattern made possible a number of transfers of funds between services with the Treasury Board's approval, which would not have been possible under the previous vote pattern. Examples of these are:

1. *Department of Northern Affairs and National Resources*

- (a) An amount of \$55,000 was transferred within Vote 15 to National Parks and Historic Sites and Monuments of which \$40,000 was made available from Branch Administration and \$15,000 from Canadian Wildlife Service.
- (b) An amount of \$100,000 was transferred within Vote 20 (the Construction vote associated with Vote 15) to National Parks and Historic Sites and Monuments from Canadian Wildlife Service.
- (c) In Vote 30 for Water Resources—Administration, Operation and Maintenance, etc., an amount of \$100,000 was transferred to the Water Resources Branch out of an amount of \$950,000 which had been included in Supplementary Estimates (A) for "Nelson River—Expenditures in connection with investigations, etc."

2. *Department of Public Works*

In Vote 15 an amount of \$750,000 was included in the details of the Estimates for "Miscellaneous works not otherwise provided for, including expenditures on works on other than federal property". By transfers from other items in the details of the Estimates which provided for construction in the various provinces, an additional amount of \$3,150,000 was made available for miscellaneous works.

3. *Department of Transport*

- (a) In Vote 10 for the "Construction or Acquisition of Buildings, Works, Land, Vessels and Equipment including payments to Provinces or Municipalities as contributions towards construction done by those bodies", an amount of \$3,779,000 was included for canals. By means of transfers of approximately equal amounts from special provisions for the St. Lawrence and Saguenay Rivers Ship Channels and the Canadian Coast Guard, this provision for canals was increased by a further \$2,127,000.
- (b) Within Vote 20 which provided for "Railways and Steamships—Construction or Acquisition of Buildings, Works and Land, Dock and Terminal Facilities, and of Vessels and Related Equipment, etc." an amount of \$500,000 was transferred from the provision for Nova Scotia-East Coast, Newfoundland, Terminals Development to Ferry Vessels and Equipment.

52. *Prairie Farm Emergency Fund.* The deficit in the operations of this Fund during the year was \$367,000 compared with deficits of \$1,073,000 and \$7,295,000 in 1964 and 1963.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act, R.S., c.213. Under the Act a levy of 1% is imposed on the price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which totalled \$10,238,000 during the past year, are credited to the account. Awards are made to eligible farmers in areas affected by crop failure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During the year awards amounted to \$10,605,000 and the \$367,000 by which these exceeded the revenue from the 1% levy was charged to Department of Agriculture Vote 75d.

The Act provides assistance to farmers where a general crop failure has occurred. The minimum area that can normally be considered a general crop failure area is an entire township, but section 6(b) provides that a rectangular block of sections, having an area of not less than one-third of a township, can be declared eligible for an award as though it were a complete township. Under section 6(a) additional sections of land that lie alongside of the boundary of an eligible township can be added to the township. It was the opinion of the Deputy Minister of Justice that a block of land which is eligible for an award under section 6(b) cannot be regarded as an eligible township for the purposes of making other sections of land having a side that lies along its boundary eligible for an award under section 6(a). Nevertheless, during the period December 1, 1964 to March 31, 1965 some \$909,000 was paid to farmers in respect of crop failures on land purportedly under section 6(a) by reason of being alongside of a rectangular block of land eligible under section 6(b). These payments were regularized by a dollar vote included in Appropriation Act No. 2, 1965, assented to April 3, 1965. The vote in question is Department of Agriculture Vote 70d which declared that any block of land eligible for an award under section 6(b) was an eligible township for purposes of section 6(a) and ratified any previous awards made on this basis.

No awards are made in respect of sections of land where the average yield of wheat is 12 bushels or more per acre. However, a farmer occupying part of a section of land is entitled to receive an award even though the yield on his land exceeds 12 bushels per acre if the other occupant of this particular section has a yield low enough to bring the average yield for the section below 12 bushels per acre. Three cases were observed where farmers were

paid \$310, \$135 and \$44 where their yields were 13.5, 14.8 and 21 bushels per acre respectively. In another township, which was eligible on the basis of wheat being the predominant crop, two cases were observed where awards were made to farmers who had very successful harvests of coarse grains. One farmer harvested 2,700 bushels of oats on 100 acres and the other 3,600 bushels of rye on 180 acres. Converted to a wheat-yield basis, the yield would be 13.5 and 26.6 bushels per acre. These farmers were paid awards of \$315 and \$400 respectively.

Inspections of areas where general crop failures have occurred are made to secure information from farmers to determine the actual yield of grain on each parcel of land. This is recorded on a "cultivated acreage report" which is signed by the farmer and the inspector. Two methods of verifying the information given by a farmer are measurement of his grain bins and examination of his Wheat Board permit book. Inspectors are required to measure bins and examine permit books or explain why they have not done so on the cultivated acreage reports. Our limited test revealed that Wheat Board permits were not examined in all cases and the bins were not always measured. However, measurement of the bins does not assure accuracy of the reports because wheat grown in one year may be stored with wheat produced in a previous year or in bins located outside the crop failure area. Furthermore, it is frequently impossible to examine storage bins located in remote locations when country roads are practically impassable due to inclement weather. As a result the inspector is forced to rely on information given him by the farmer.

During the year a special branch was set up, with headquarters in Regina, to make spot checks of selected areas. One of the reports of this special branch concerned a suspected area in Alberta. The investigator reported that there appeared to be no doubt that falsification of cultivated acreage reports was the rule rather than the exception and that the elevator agents were also involved. Quantities of wheat on hand, stated to have been produced in the previous year, did not agree with grades of that year. Sales of grain were made in locations other than the location shown on the permit books and there was also a strong indication that considerable wheat had been sold to a feed processing plant. There appeared to be no doubt that considerably more wheat had been produced in 1964 than had been shown on the cultivated acreage reports. Eleven townships were involved. No payments had been made in the area and the municipalities had been requested to withdraw applications for awards.

The Commission of Inquiry established by Order in Council on December 21, 1963 to inquire into payments made under the Act, in its report of June 10, 1964, observed that the present system of processing cultivated acreage reports through the employment of a large number of inspectors was both unnecessary and expensive and did not assure accuracy. The Commission noted that new permit books are issued at the end of each crop year and recommended that, as a condition precedent to a farmer having a right to secure an award, he be required to set forth in his permit book, at the time he receives it, a statement of grain on his farm. The Commission also recommended that all farmers in an area affected be required to complete cultivated acreage reports when a municipality makes an application for assistance, so that it would not be necessary for inspectors to secure these reports. In our opinion these two recommendations require implementation.

Last year we noted that the Board of Review, established under the Act to decide questions concerning eligibility for awards and other relevant matters, did not maintain any minutes and, as a result, difficulty was experienced in verifying certain awards under the Act. This condition still exists.

Since inception of the Act three townships have received crop failure assistance in 24 out of 26 crop years and 30 surrounding townships were eligible in 21 years of the same period. We again recommend that consideration be given to the elimination from eligibility for awards, of marginal land on which crop failures continuously occur from year to year, and also to the repeal of section 7 of the Act which requires every award to be paid in the month of December. It is impossible to comply with this section of the Act as most of the awards cannot be paid until January or February.

53. *Loss arising from delay in acceptance of offer to purchase land.* Early in 1962 the Prairie Farm Rehabilitation Administration opened negotiations for the purchase of certain properties required in connection with the construction of a water reservoir in Saskatchewan. One of the owners concerned offered to accept the sum of \$10,750, in full and final settlement for his property, on the condition that payment be made on or before October 31, 1962.

The offer was forwarded to P.F.R.A. headquarters in Regina on May 29, 1962 and was sent to Ottawa on July 31, 1962. Order in Council P.C. 1962-2/1336 of September 27, 1962 authorized acquisition of the property involved but it was not until late in October that a solicitor in the Province of Saskatchewan was appointed to handle the conveyance. On November 3, 1962 solicitors for the landowner advised that, because the condition set out in the Offer to Sell as to time of payment had not been complied with, the offer had been withdrawn.

Since the land in question was essential to the water storage project, the Department of Agriculture undertook expropriation proceedings in 1964. Settlement was then made with the landowner for \$16,000, an increase of \$5,250 over the amount agreed upon prior to withdrawal of the original offer.

54. *Loss on advances for construction of potato warehouses.* Order in Council P.C. 2017 of April 20, 1950 authorizes the Minister of Agriculture to grant financial assistance to co-operative associations for the construction of potato warehouses. The regulations governing the grants require co-operative associations applying for assistance to assume not less than one-quarter of the cost of construction, the province to pay the remainder. Following construction of a warehouse, the federal Government reimburses one-half of the amount paid by a province. One-half of the subsidy received by a co-operative association is required to be repaid by a volume levy on all potatoes and other produce handled by the warehouse.

It has not been the practice to protect the recoverable portion of a subsidy by means of a mortgage on the warehouse and two cases were noted where amounts required to be repaid by co-operative associations will not be recovered.

In 1960 the Province of Saskatchewan paid \$75,728 to a co-operative association for construction of a potato warehouse and in 1962 the federal government paid \$37,864 to the Province as its share of the subsidy.

The manager of this co-operative association was also the manager of a nearby family-owned potato chipping plant. A member of the family was on the board of directors of the co-operative association and it soon became apparent that the warehouse was being run solely for the needs of the chipping plant. In 1960, 1.5 million pounds of potatoes in storage were not offered for sale even though wholesalers in the three northern cities of the Province were buying potatoes in Alberta and Manitoba. It was the opinion of the trade that all the potatoes could have been sold on the commercial market. Some of the potatoes were stored in a special insulated bin and, in order to condition them for chipping, the temperature in this bin was raised. However, the heat loss from this bin penetrated the other bins of the warehouse. Advice from many sources on the necessity of marketing the potatoes was ignored and \$50,000 worth of potatoes were allowed to rot in the warehouse.

The chipping plant did not prosper and went into liquidation owing the co-operative association some \$12,000. To finance its operations the co-operative association then borrowed \$40,000 from a loan company and gave as security a first mortgage on the potato warehouse.

The losses incurred on the 1960 potato crop deterred growers and by 1962 it was evident that the warehouse could not operate economically. In 1964 the mortgagee was allowed to sell the warehouse. No amount was received on account of the levy on the volume of the produce handled while the warehouse was in operation and it now appears that neither the provincial nor federal governments will recover any part of the \$18,932 due to each.

In the second case, a co-operative association received \$26,930 from the Province of British Columbia to assist in the construction of a potato warehouse and in 1960 the federal Government reimbursed the Province one-half of the subsidy which it had paid. After a year's operation the co-operative association was dissolved while still owing \$2,890 to the contractor who had built the warehouse and a further sum of \$3,178 to a member who had advanced this sum to the co-operative association. Both amounts were secured by mortgages and when foreclosure proceedings were commenced the Province of British Columbia paid off the mortgages and rented the warehouse. The provincial Government is presently negotiating the sale of the warehouse for \$10,000 and, after deducting the \$6,068 paid on the mortgages, will divide the remainder equally between the two governments. The federal Government will then have received only \$3,497 and therefore will lose \$3,236 of the recoverable portion of the subsidy.

In our opinion, consideration should be given to taking security, in the form of a first mortgage on each warehouse or in some other form, for that portion of the subsidy recoverable by the provincial and federal governments.

55. *Effect of change in method of financing capital expenditures of the Canadian Broadcasting Corporation.* Paragraph 187 in the Crown Corporations section of this Report includes comments regarding the operations of the Canadian Broadcasting Corporation.

As required by section 35(1) of the Broadcasting Act, 1958, c.22, the Canadian Broadcasting Corporation submits a capital budget and an operating budget for each financial year for approval by the Governor in Council on the recommendation of the responsible Minister and the Minister of Finance. Each year, from the proclamation of the Act until March 31, 1964, funds to meet each of these budgets have been provided by two separate grants under Appropriation Acts, both charged to budgetary expenditure.

The funds required by the Corporation to meet its capital expenditure during the year ended March 31, 1965 were provided by means of loans from the Government instead of grants. The relative vote of Appropriation Act No. 10, 1964 provided for:

Loans to the Canadian Broadcasting Corporation for the purpose of capital expenditures, subject to terms and conditions prescribed by the Governor in Council—\$14,250,000.

These loans, repayable by the Corporation in equal annual instalments over the next twenty years, with interest payable at rates of $5\frac{1}{4}\%$ and $5\frac{3}{8}\%$ per annum, are included in "Loans to and investments in Crown corporations" appearing as an asset item on the Statement of Assets and Liabilities of Canada (see paragraph 149). As a consequence, the Statement of Expenditure and Revenue of Canada was not prepared on a basis consistent with that of the preceding year and the resultant deficit of \$37,965,000 shown on that Statement has been under-stated to the extent of the capital expenditures of \$14,250,000.

This procedure is a contradiction of the long-standing principle of the Department of Finance that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities on the Statement of Assets and Liabilities with costs of capital works being charged to expenditure at the time of acquisition or construction. This subject is dealt with further in paragraph 167 under the Comments on Assets and Liabilities.

The Canadian Broadcasting Corporation is not in a position to repay either principal or interest on loans such as these unless it is placed in funds for the purpose. Consequently, the grant of \$85,869,000, provided by Appropriation Act No. 10, 1964 to cover the net operating requirements of the Corporation included an amount of \$374,000 to enable the Corporation to pay the interest on the loans. Receipt of this interest by the Department of Finance is recorded under the heading of "Non-tax Revenues—Return on Investments". This procedure has the effect of increasing the recorded amount of both the revenues and expenditures of Canada in violation of generally accepted accounting principles.

The 1965-66 Estimates tabled on March 22, 1965, but not yet approved by Parliament, include a grant of \$97,044,000 "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service". This amount includes the first principal repayment of \$710,000 and interest of \$1,170,000 on the loans made in 1964-65.

The wording of the Vote does not disclose this information nor is it provided in the Details of Services.

56. *Salaries and wages paid for work not performed.* In the course of the audit of the payrolls of the Canadian Broadcasting Corporation we noted that program costs included payments to employees for scheduled hours during daily or weekly tours of duty which were in excess of the actual hours of attendance.

All payments were in accordance with the articles of the various union agreements and our tests did not reveal any discrepancies in their application.

In order to determine the extent of these costs, a special study was made of the pay-rolls of the Toronto Area and English Network for the period November 23 to December 20, 1964 and of the Quebec Region and French Network for the period February 22 to March 21, 1965.

Our study for the selected four-week periods disclosed the amount of scheduled time in excess of actual, as follows:

	Hours	Com- pensation
Toronto Area and English Network.....	5,614	\$ 14,862
Quebec Region and French Network.....	7,950	20,423
	<u>13,564</u>	<u>\$ 35,285</u>

Other tests have served to confirm that this situation prevailed throughout the year. On the basis indicated by our test examinations, payment of salaries and wages for work not performed would amount to approximately \$450,000 for the year.

The majority of the employees receiving this compensation were credited for hours not worked during each of the four weeks included in our study. Figures for three of the employee classes selected for the test, comprising some 636 employees receiving \$23,379, or 66% of the payments, indicated that the additional compensation averaged \$36 for the period. The Corporation has advised us that it regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast program production.

Since the procedure followed results in payment for work not performed, it is, in our opinion, non-productive expenditure of the type which the Public Accounts Committee as requested be brought to the attention of the House.

57. *Financing of the 1967 World Exhibition.* Paragraph 189 in the Crown Corporations section of this Report includes comments on the operations of the Canadian Corporation for the 1967 World Exhibition during the past year.

As explained in that paragraph, the existing legislation provides that grants provided by Canada, the Province of Quebec and the City of Montreal must not exceed \$20 million, \$15 million and \$5 million, respectively, a total of \$40 million. The federal contribution is limited to \$20 million under section 11 of the Canadian Corporation for the 1967 World Exhibition Act.

The present revised overall plan approved by Canada and the Province of Quebec, as provided for under section 10 of the Act, estimates total costs of \$250,704,000 for the Exhibition with revenues, salvage and asset recoveries estimated at \$189,123,000. As this forward estimate indicates a net cost or deficit of \$61,581,000 at the close of the Exhibition, after allowing an estimated \$56,039,000 for the value of the assets remaining at that time, it follows that the Corporation's total requirement by way of grants is \$117,620,000 based

on present estimates. Because of the limits imposed by the present legislation of Canada and the Province of Quebec as to the amount of the grants which may be made to the Corporation, changes will be required in this legislation before these additional substantial grants may be made. Unless these additional grants are provided, this total requirement (less \$40,000,000 already granted) will have been financed by loans and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Fair will not have the cash resources necessary for payment of the indebtedness.

In addition to the federal contribution of \$20 million to the Corporation, subsection (5) of section 12 of this Act provides for temporary borrowings from the federal Government but the aggregate of all amounts loaned under this subsection and outstanding at any time shall not exceed \$1 million.

Subsections (1) to (4) of section 12 of the federal Act make provision for the Corporation to issue securities guaranteed by Canada and Quebec. Following the close of the year, the Corporation made arrangements to issue such securities and Canada proposes to purchase and hold them to the extent of \$80 million, as evidenced by Department of Finance Vote L26b of Supplementary Estimates (B) which were submitted to the House on June 22, 1965. Although this vote was not passed by Parliament before it recessed on June 30, 1965, seven-twelfths of the amount was approved by Appropriation Act No. 6, 1965 assented to on that date.

The restrictive sections of the Canadian Corporation for the 1967 World Exhibition Act, namely sections 11 and 12 outlined above, cause us to question whether Parliament originally intended that Canada should purchase securities of the Corporation.

58. *Questionable charges to Vote 15 of the Department of Citizenship and Immigration.* For several years this Office has been concerned with whether welfare and educational expenditures on non-Indians, other than on a recoverable basis, were within the ambit of the Indian Affairs Branch votes of the Department of Citizenship and Immigration. In 1961 we referred the matter to the Secretary of the Treasury Board and certain restrictive words were dropped from the text of the welfare vote, as they had been previously from the vote for education of Indians. We suggested at the time that all doubt be removed by modifying the text of each vote to indicate clearly that certain categories of non-Indians were included. This suggestion was not followed.

In conformity with the revised vote pattern introduced in the Main Estimates 1964-65, a number of vote texts of the Indian Affairs Branch including administration, Indian agencies, welfare, economic development and education were consolidated in one vote heading which reads:

Vote 15—Administration, Operation and Maintenance including expenditures on works on other than federal property, grants and contributions as detailed in the Estimates, recoverable expenditures under agreements entered into with the approval of the Governor in Council with the Governments of the Provinces and Territories and with local School Boards in respect of social assistance to persons residing on Indian reserves other than Indians and the education in Indian schools of children other than Indian children, and to authorize the Minister of Citizenship and Immigration to provide, in respect of Indian com-

mercial activities, for the instruction and supervision of Indians, the furnishing of materials, the purchase of finished goods and, notwithstanding any other Act, the sale of such finished goods.

In 1964-65 this vote was charged, like the votes of previous years, with non-recoverable welfare and educational expenditures on non-Indians residing on reserves.

In our opinion, the only permissible expenditure on non-Indians authorized by the vote is expenditure specifically provided for in the vote, that is, expenditure made on a recoverable basis under agreements with the governments of provinces and territories and with local school boards.

59. *Disposal of surplus plant.* In March 1964 the Minister of Defence Production was authorized to solicit and negotiate bids for the sale of three plants operated by Canadian Arsenal Limited. Bids were invited for each of the plants, the prospective purchaser being required to demonstrate a capability to manage manufacturing facilities involving military equipment, state his intention to retain the defined military explosive manufacturing capabilities and indicate his proposed use of the remaining plant capacity. Only the DeSalaberry plant was sold.

Only one bid was received for this plant which is located on 1,094 acres fronting on the St. Lawrence River near Valleyfield, Que. The original cost of the plant's land, buildings, machinery and equipment was \$18,210,000. Over the past six years its operations have resulted in losses averaging \$1.5 million annually, exclusive of any charge for depreciation of its buildings and equipment, and departmental officials estimated that future operating losses would be about \$1 million annually.

In May 1964 an independent appraiser advised Crown Assets Disposal Corporation that a fair market value of the property, exclusive of machinery and equipment, would be \$6,492,000, subject to the qualification that if any use of the property, other than the use to which it is now put, were to be contemplated by a purchaser, then the value would be but a fraction of the figure mentioned because most of the buildings are one-purpose structures. At the same time machinery and equipment in the plant were separately evaluated on an estimated recovery basis by officials of Canadian Arsenal Limited, Department of Defence Production and Crown Assets Disposal Corporation at \$1,405,000. This placed the total appraised fair market value of the land, buildings, machinery and equipment at \$7,897,000.

The company that had submitted the bid planned to use the facilities for manufacturing propellants and military high explosives and to develop suitable propellants for commercial ammunition. The company also proposed to investigate the commercial application of that part of the facilities designed for the production of nitrocellulose and nitric acid but did not contemplate that its foreseeable production would ever fully utilize the plant capacity available.

Taking into consideration the appraiser's qualification in valuing the property, the fact that the company could not utilize the full plant capacity and that a major portion of the plant could not be commercially utilized without substantial conversion, it was concluded that the fair market value of the land, buildings, machinery and equipment should be reduced from \$7,897,000 to \$4,137,000.

The company offered to purchase the land, buildings, machinery and equipment for \$1 million and to pay \$757,000 for the active inventory on the premises. It also indicated that, as a condition of sale, it was prepared to retain the skills and capabilities of the plant to produce defence supplies for a period of ten years without cost to the Crown and to retain items of equipment and special tooling essential to such production and to accord first priority to defence contracts. The company's offer was accepted and the sale completed on this basis on March 31, 1965.

60. *Defence Production Revolving Fund.* Section 16 of the Defence Production Act, R.S., c.62, established the Defence Production Revolving Fund in an amount not to exceed \$100 million for the purpose of acquiring, storing, maintaining, and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The section provides that no amount may be credited to the revolving fund to reimburse the fund for any loss sustained except pursuant to an appropriation by Parliament for that purpose. However, the Act is silent with respect to the treatment of any surplus.

The Financial Administration Act requires a surplus in a revolving fund to be "transferred from the revolving fund as revenue" and it also includes a provision similar to that appearing in the Defence Production Act that "no amount may be credited to the revolving fund to meet the deficiency except with the authority of Parliament". These directions with regard to treatment of surpluses and deficits seem to us to clearly indicate that Parliament wishes to be made aware of losses sustained through the operations of revolving funds and does not intend that any such losses be absorbed by a previously accumulated surplus.

In 1956 there was a surplus of \$470,000 in the Defence Production Revolving Fund and the Auditor General's Report for that year drew attention to this surplus because it was believed to be the intent of Parliament that all revolving funds surrender surpluses at each year-end.

No action was taken with regard to the surplus reported in 1956 and by March 31, 1965 there was an accumulated surplus of \$1,818,000 in the Defence Production Revolving Fund comprising:

Interest received under aircraft sales contracts.....	\$ 1,111,000
Interest received on working capital advances.....	14,000
Net profit on strategic material inventory transactions:	
Disposal completed.....	730,000
In process of disposal.....	1,000
	<hr/>
	1,856,000
Less: Warehousing and other expenses relating to inventories still on hand.....	38,000
	<hr/>
	\$ 1,818,000

In the absence of specific provisions in the Defence Production Act with respect to the treatment of surplus, departmental officers have taken the view that surplus, whether derived from interest earned or profit on a strategic material inventory that has been completely disposed of, should be retained in the Fund as protection against possible losses on future transactions.

We do not agree with this view. If income of the type above is to be left at the discretion of the department in a revolving fund to cover possible future losses in that fund, parliamentary control of public money is weakened because losses which should come under parliamentary scrutiny would not be adequately disclosed. Moreover, unless a surplus is transferred from a revolving fund to the Consolidated Revenue Fund, budgetary revenues are understated.

61. *Department of External Affairs missions abroad.* In our 1964 Report (paragraph 49) reference was made to a defalcation by a locally-engaged accountant employed by the Canadian Mission in Canberra, Australia. Inadequate supervision of the accountant's work and weaknesses in the departmental system of internal financial control were the main factors contributing to the delay in detecting the defalcation.

Discussions were held a year ago with departmental officers concerning these weaknesses. Although the Department despatches inspection teams at regular intervals to examine the operations of embassies and missions, their work does not include any examination of the accounting and financial records. In the past the Audit Office has not made test audits of these accounts, mainly because paid cheques, receipted vouchers and related documents are forwarded to the Department in Ottawa for verification.

In our discussions it was agreed that the Department would consider setting up a small internal audit staff and in the meantime the Audit Office would carry out test examinations at a number of posts to the extent it could integrate this work with other assignments, thereby keeping travel overhead to a minimum.

Following this arrangement, we made test examinations of the financial transactions and related administrative procedures of several embassies abroad during the past year. In each case detailed reports outlining the scope of the work undertaken and the results obtained were provided to the Department together with comments and suggestions for the improvement of practices and procedures found to exist in the posts visited. Action has been taken by the Department on the points raised.

A matter of concern at one of these embassies has not yet been resolved. Claims had been received from a local shipping company covering shipments of personal effects of staff members returning to Canada during the years 1961 to 1964. While delay had occurred in clearing and paying the 1962-64 portion of the claims because proper documentation was not provided by the company, the accounting records of the embassy showed that the 1961 portion, which amounted to \$2,230 at the current rate of exchange, had actually been paid in cash in 1961.

The shipping company maintains that it has never received any payment from the embassy in respect of these 1961 accounts. It states that its invoices, which are filed at headquarters in Ottawa, were not receipted, the signatures appearing thereon being merely certification by its accountant that the invoices were correct.

The matter is under study by the Department at the present time.

62. *Indirect compensation to chartered banks.* In our 1962 and 1963 Reports reference was made to the practice of the Government of maintaining large balances on deposit with the chartered banks, receiving interest only on the balances in excess of an aggregate of

\$100 million. The view was expressed that this constituted indirect compensation to the chartered banks for services provided to the Crown and was contrary to section 93(1) of the Bank Act.

The Public Accounts Committee in its Fourth Report 1963 advised the House that it was in agreement with the view of the Auditor General, and in its Sixth Report 1964 it reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965 (see Appendix 1, item 29).

At the 1965 session of Parliament, Bill C-102, entitled "An Act respecting Banks and Banking", was given first and second readings and referred to the Standing Committee on Finance, Trade and Economic Affairs. Clause 93 of this Bill reads as follows:

93. (1) No bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(2) Nothing in subsection (1) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

(3) No bank shall directly or indirectly charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer.

It should be noted that subsection (2) of clause 93 of this Bill is designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest bearing funds (currently an aggregate of \$100 million) on deposit with them.

63. *Special Government contributions to superannuation accounts.* Reference was made in paragraph 50 of last year's Report to the deficiency in the Public Service Superannuation Account which resulted when no special credits were made to the Account in respect of salary increases granted to civil service classes in four consecutive years as the result of cyclical salary reviews, although subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, then read:

There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase.

We were informed that the reason no such special credits were made to the Account as required by section 32 was that the salary increases granted to the four categories into

which the service had been divided for salary review purposes were not regarded as increases "of general application" for the purposes of the statute.

On March 6, 1964 the Minister of Finance informed the House of Commons of a general policy for dealing with the deficiencies in the various superannuation accounts. It was proposed to write off deficiencies existing prior to the commencement of the 1963-64 fiscal year to net debt and to amortize subsequent deficiencies arising from salary increases, over a five-year period commencing in the year in which the increases are authorized. In accordance with this policy, and pursuant to Department of Finance Vote 68e of the final Supplementary Estimates for 1963-64, recorded deficiencies of \$524,849,000 in the Canadian Forces Superannuation Account and \$6,333,000 in the Royal Canadian Mounted Police Superannuation Account were written off to net debt. Similar action was not taken at that time with respect to a recorded deficiency of \$276,661,000 as at December 31, 1957 in the Public Service Superannuation Account.

When the quinquennial actuarial report on the Public Service Superannuation Account as of December 31, 1962 was tabled on November 12, 1964, the Minister stated that authority would be sought from Parliament later in the year to write off to net debt an additional deficiency of \$110,536,000 revealed by the report, plus interest (as well as the previously existing deficiency of \$276,661,000) and to charge the deficiencies arising from pay increases authorized during the fiscal years 1963-64 and 1964-65 against expenditure over a five-year period commencing with 1964-65.

It was calculated by the Department of Insurance that the deficiency in the Superannuation Account as at December 31, 1962 plus interest to December 31, 1964 would amount to \$119,556,000 and that the additional deficiency arising from pay increases authorized in 1963-64, with interest to December 31, 1964, would amount to \$30,506,000.

To carry out the new policy, three Department of Finance votes were included in the Supplementary Estimates (D), 1964-65. Vote 24d authorized the write-off to net debt of \$396,217,000 representing the unamortized actuarial deficiency of \$276,661,000 in the Public Service Superannuation Account as at December 31, 1957 and the deficiency of \$119,556,000 as at December 31, 1962, including interest to December 31, 1964 (see paragraph 175). Vote 16d provided for the initial contribution to the Public Service Superannuation Account to amortize deficiencies resulting from the authorization of salary increases during the 1963-64 and 1964-65 fiscal years "each one of which was applicable to at least one-quarter of one per cent" of the contributors under the Act. A dollar vote (18d) was included to amend the Public Service Superannuation Act, the Canadian Forces Superannuation Act and the Royal Canadian Mounted Police Superannuation Act to require that the deficiency resulting from any salary increase "applicable to at least one per cent" of the persons covered by the respective Acts be amortized over a five-year period commencing in the year in which the increase is authorized. This vote was withdrawn in Committee of Supply and its provisions were incorporated in Chapter 5, 1965, "An Act to amend certain Acts respecting the superannuation of persons employed in the Public Service, members of the Canadian Forces and members of the Royal Canadian Mounted Police", assented to on June 2, 1965.

The amendments to the Canadian Forces Superannuation Act and the Royal Canadian Mounted Police Superannuation Act were made effective from January 1, 1965, thus providing statutory authority to charge one-fifth of the deficiencies in those accounts arising from pay increases in 1964-65 to expenditure of the year.

Subsection (2) of section 32 of the Public Service Superannuation Act, as amended by Chapter 5, 1965, now reads:

There shall be credited to the Superannuation Account, following the authorization of any salary increase applicable to at least one per cent of those persons employed in the Public Service who are contributors, in five equal annual instalments commencing in the fiscal year in which the salary increase is authorized, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty of the benefits payable under this Act, as a result of such salary increase.

Department of Finance Vote 18 of the Main Estimates, 1965-66, makes provision for the second annual contribution to the Public Service Superannuation Account to amortize the deficiency resulting from salary increases authorized during 1963-64 and 1964-65. Unlike Vote 16d of the 1964-65 Estimates and subsection (2) of section 32 of the Public Service Superannuation Act which refer, respectively, to "one-quarter of one per cent of the contributors" under the Act and "at least one per cent of those persons employed in the Public Service who are contributors", this vote reads:

Government's contribution to the Superannuation Account as a result of the authorization of salary increases, each one of which was applicable to at least that percent of the contributors under the Public Service Superannuation Act, during the 1963-64 and 1964-65 fiscal years, as may be prescribed by the Treasury Board, in such amount as, in the opinion of the Minister of Finance, is necessary to provide for one-fifth of the cost to Her Majesty in right of Canada for the benefits payable under that Act as a result of the said salary increases—\$10,000,000.

The Treasury Board, by T.B. 641422 of May 27, 1965, prescribed one-quarter of one per cent as the percentage of contributors required for purposes of Vote 18. This was to take care of a situation where salary increases were not authorized to all members of a large group at the same time within the fiscal year, and while no single increase applied to as many as one per cent of the contributors under the Act, in total they did.

Although the three superannuation Acts, as amended, authorize credits to the superannuation accounts in five equal annual instalments, the full amount of the actuarial deficiency in each account was credited during 1964-65 and an offsetting entry was made to a deferred charge account. The deferred charge was then reduced by debiting expenditure with the one-fifth authorized for the year, leaving four-fifths to be shown as "unamortized portions of actuarial deficiencies" on the asset side of the Statement of Assets and Liabilities until charged to expenditure in subsequent years.

By immediately crediting the superannuation accounts with the full amount of existing deficiencies, additional deficiencies resulting from loss of interest were avoided, but the practice is not consistent with the recent amendments to the governing statutes.

The following is a summary of the transactions in the deferred charge accounts during 1964-65 and the position at the year-end:

Balance, April 1, 1964, representing the unamortized portion of the actuarial deficiency in the Public Service Superannuation Account as at December 31, 1957.....		\$ 276,661,000
Add:		
Public Service Superannuation Account		
Deficiency as at December 31, 1962 with interest to December 31, 1964.....	\$ 119,556,000	
Deficiency arising from pay increases authorized in 1963-64 with interest to December 31, 1964...	30,506,000	
Deficiency arising from pay increases authorized in 1964-65.....	19,395,000	
	<hr/>	169,457,000
Canadian Forces Superannuation Account		
Deficiency arising from pay increases authorized in 1964-65.....	67,202,000	
Royal Canadian Mounted Police Superannuation Account		
Deficiency arising from pay increases authorized in 1964-65.....	5,192,000	
	<hr/>	241,851,000
		<hr/>
		518,512,000
Deduct:		
Written off to net debt (Vote 24d)		
Public Service Superannuation Account		
Deficiency as at December 31, 1957.....	276,661,000	
Deficiency as at December 31, 1962 with interest to December 31, 1964.....	119,556,000	
	<hr/>	396,217,000
Charged to budgetary expenditure		
One-fifth of the deficiencies arising from pay increases authorized subsequent to April 1, 1963		
Public Service Superannuation Account (Vote 16d).....	9,980,200	
Canadian Forces Superannuation Account (Statutory).....	13,440,400	
Royal Canadian Mounted Police Superannuation Account (Statutory).....	1,038,400	
	<hr/>	24,459,000
		<hr/>
		420,676,000
Balance, March 31, 1965, representing the unamortized portions of the actuarial deficiencies in the superannuation accounts.....		<hr/> <hr/>
		\$ 97,836,000

64. *Errors in Public Service Superannuation Account pension and contribution calculations.* Comments under this heading have appeared in our Reports to the House for the past four years. The Public Accounts Committee in its Fourth Report 1963 noted its concern over the high incidence of error in the superannuation accounts and in its Sixth Report 1964 expressed its further concern that the matter was taking so long to be cor-

rected. The Committee requested the Auditor General to keep it fully informed as to the progress being made in this direction (see Appendix 1, item 24).

While our test examinations in 1964-65 indicated a reduction in the number of errors in current calculations, they continued to disclose numerous errors made in previous years. We directed the attention of the Superannuation Branch to 80 cases of non-payment or underpayment of amounts due under Vote 667 of Appropriation Act No. 5, 1958 and the Public Service Pension Adjustment Act, 1959, c. 32, amounting to \$22,700 up to February 28, 1965 and to two overpayments. A detailed check by the Branch revealed 245 additional underpayments amounting to \$30,900 to July 31, 1965 and 13 overpayments amounting to \$1,200 to September 30, 1965.

During the year the Superannuation Branch established a special review unit to check in detail the files of all contributors between the ages of 55 and 63 in order to locate any financial discrepancies before the contributors leave the service. There are some 25,000 contributors in this age group. As those over 63 will be retiring in the near future, the Branch proposes to delay checking their files until the retirement dates.

The number of contributors to the Public Service Superannuation Account is large and the numerous amendments to the Act and Regulations over the years have presented administrative problems. However, clerical work of this type is a necessary part of personnel administration in all large organizations. Its accuracy is of particular importance to the individual contributor to the Superannuation Account who should not have to accept the possibility, after retirement, of a retroactive adjustment of his pension caused by mistakes or inadequate departmental procedures. Prompt and effective steps should be taken to further improve the quality of the work and to identify and correct the numerous errors made in previous years.

The multiplicity of errors which has been the subject of comment by us in recent years had its origin in a directive dated June 11, 1957 from the then Minister of Finance which established a division of responsibility between the Superannuation Branch and the Comptroller of the Treasury. Under this division the Comptroller's pre-audit of benefit payments was discontinued and the Superannuation Branch was relieved of all responsibility for the correctness of superannuation contribution deductions from pay. Accordingly, when determining annuities to be paid, the Branch does not verify contributions made in relation to salary earned which would automatically indicate errors made at any time during the period of service and reduce the possibility of error in calculating the annuity. Even with the transfer of responsibility for administration of the Superannuation Branch to the Comptroller of the Treasury in December 1963, this simple verification was not re-introduced.

On May 14, 1959 we made the following suggestion to the Superannuation Branch:

Might we suggest that, if the Superannuation Account and the interests of the individual contributors are to be adequately protected, the Superannuation Branch should ascertain that a contributor's account is in order before authorizing a benefit, and that the procedure should include an examination of the employee's contributions in relation to his salary and the documents on file. This would probably require the inclusion of record of contributions (current and arrears) in the Non-elective Pensionable Service Record (FA9).

This suggestion has not been accepted and in our opinion the unsatisfactory situation in the Superannuation Branch will not be adequately resolved until it is adopted.

Reference was made in the 1963 Report and in last year's Report (paragraph 51) to the lack of verification of the correctness of contributions remitted to the Central Pay Division in respect of employees of various Crown corporations. We were advised last year that action would be taken to correct the situation. We find, however, that little progress has been made. Contributors' accounts in this category totalled 4,353 at December 31, 1959 and 8,493 at December 31, 1964. By September 1965 entries in 2,335 accounts had been completed and verified to December 31, 1959 and in 122 accounts had been completed and verified to December 31, 1964.

65. *Extra-statutory death benefit and pension payments.* In two cases noted during the year, ex gratia payments were authorized in areas already regulated by legislation.

Approval was given by Order in Council P.C. 1965-17/51 of January 13, 1965 to a recommendation that a payment of \$4,984 be made on an ex gratia basis to the widow of a public servant, representing the difference between contributions that would have been required and the \$5,000 death benefit that would have been payable if the deceased officer had been a participant under Part II of the Public Service Superannuation Act during his period of employment (8 months) in the public service. The man had not been a contributor to the Public Service Superannuation Account.

An Order in Council, P.C. 1965-14/428 of March 12, 1965, authorized ex gratia payments of \$250 per month and \$90 per month, respectively, commencing with January 1965, to two former Members of Parliament who were appointed to an advisory committee of the Government on election expenses, in recognition of the fact that while being paid out of the Consolidated Revenue Fund \$100 for each day of service to the committee they became disentitled to receive their monthly pensions in the foregoing amounts under the Members of Parliament Retiring Allowances Act.

66. *Subsidization of Fishermen's Indemnity Plan.* In last year's Report (paragraph 53) it was explained that two accounts, the Lobster Trap Indemnity Account and the Fishing Vessel Indemnity Account, are maintained in connection with this Plan which was introduced in 1953-54. It was pointed out that although the Plan was intended to be self-supporting, except for its administrative costs which are met through parliamentary appropriations, both accounts had recorded net deficits from their inception to March 31, 1964.

In 1964 we were informed by the Department of Fisheries of steps which had been taken, in respect of the Lobster Trap Indemnity Account, to cope with annual deficits which had reached a peak of \$153,000 in 1962-63. These included the adoption of improved administrative procedures and an amendment to the regulations early in 1964 to increase the amount deducted for "normal" loss in the calculation of indemnity. The deficit of \$29,000 in 1963-64 was followed by a deficit of \$10,000 in the current year, the lowest figure since 1955-56.

A year ago, following deficits of \$81,000 in 1962-63 and \$168,000 in 1963-64 with respect to the Fishing Vessel Indemnity Account, we were informed that the Department was engaged in a detailed study to ascertain the extent to which factors other than weather

might have been operative during this period and to determine what further changes in the regulations are practicable or to what extent the premium rates should be revised. The study was recently completed by the Department's Economics Service and its findings are under consideration.

The deficit of \$71,000 in the Fishing Vessel Indemnity Account for 1964-65, while substantially less than that for the preceding year, was the third highest since the inception of the Plan.

67. *Free accommodation for international commission without parliamentary sanction.* Vote 5 of the Department of Fisheries makes provision annually for Canada's share of the expenses of international commissions named in the Estimates.

In addition to the payments made under this authority, it has been the practice to provide free accommodation in Crown-owned premises for a number of the international commissions. An exception was the International Commission for the Northwest Atlantic Fisheries which in May 1963 had entered into a three-year lease at a rental of \$200 per month for accommodation in a government-owned building at Dartmouth, N.S. In June 1964, when, due to rising costs, the Commission was considering increases needed in the contributions of member countries, the Governor in Council by Order in Council P.C. 1964-10/862 of June 18, 1964 cancelled the rent payable during the remainder of the lease.

It is our opinion that subsidy in the form of free accommodation in all such cases should be drawn to the attention of Parliament in the annual Estimates.

68. *Questionable charge to Vote 1 of the Department of Industry.* During the year a firm sought assistance from the Department of Industry to carry out a development program to determine the feasibility of a new process for treating various types of metallic ores. The firm had been unable to obtain assistance from any other government department or agency but as the project was considered a promising one deserving of support, the Treasury Board in January 1965 approved in principle the granting of assistance up to a maximum of \$88,550 as the Crown's share of the total estimated cost of \$177,330. However, at the time there was no appropriation to which assistance of this type, which was not defence oriented, could be charged. As an alternative the Board decided to authorize the entry into a contract in the estimated amount of \$19,560 representing the amount of Crown assistance required for 1964-65, in consideration for which the Department would obtain a report on the work done on the project for the period January 15 to March 31, 1965. The firm billed the Department \$18,935 and this amount was charged to Department of Industry Vote 1, Departmental Administration (Professional and Special Services).

It is questionable whether expenditure of this type, which is actually to assist in advancing technological capability of Canadian industry, is within the ambit of the Department of Industry administration vote.

69. *Federal losses from bankruptcies.* Our 1962 Report drew attention to the increased cost of supervision of bankruptcies caused by the disclosure of irregularities in the ad-

ministration of estates by a number of trustees in bankruptcy and to the increase in the rate of levy on estates that had been introduced to meet the additional expenses.

In October 1964 the Province of Quebec appointed a commission of inquiry to determine the effect on the revenue of the Province of bankruptcies occurring between November 1, 1959 and November 1, 1964. The report of the commission, which was submitted on July 30, 1965, estimated that the Province had lost approximately \$5.5 million in revenue during the period as a result of bankruptcies and stated that "fraud and dishonesty in one way or another penetrated deeply into a large portion of bankruptcies and liquidations". The commission recommended, among other things, changes in the Bankruptcy Act, R.S., c.14, and in the administration of bankruptcy, including the establishment of a "permanent inquiry service" either under section 3(5) of the Bankruptcy Act which provides that:

The Superintendent may engage such accountants or other persons as he may deem advisable to conduct any inspection or investigation . . .

or under some other legislative provision.

No amount has yet been established to indicate the extent to which federal revenue has been lost as a result of these irregularities.

70. *Living allowances to federally-appointed judges.* In our 1962 Report reference was made to the payment of living allowances to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees. We expressed the opinion that a daily rate of \$60 appeared excessive as a living allowance and could be regarded as including an element of remuneration, contrary to subsection (1) of section 39 of the Judges Act, R.S., c. 159. This subsection prohibits the payment to a judge of any remuneration in addition to his judicial salary "for any duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the Government of Canada or the government of any province", subsection (3) of the same section simply permitting payment of "such moving or transportation expenses and living allowance as the Governor in Council or the Lieutenant-Governor in Council, as the case may be, may fix by general or special order".

The Public Accounts Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration and recommended in its Fourth Report 1963 that if additional remuneration was to be paid to judges, the approval of Parliament for such payment should be obtained. The Committee took notice of a subsequent appointment at \$100 per day and reiterated the recommendation in its Fourth Report 1964 (see Appendix 1, item 7).

The Minister of Justice, in a letter to the Chairman of the Public Accounts Committee dated August 13, 1964, referred to the fact that the allowance was subject to income tax and gave as his view that it did not contain an element of remuneration. He went on to say that even if an element of remuneration was included, it was not prohibited by the Judges Act and "no further approval of Parliament is necessary".

Two additional circumstances have now been noted which support the opinion that the amount of these allowances is such that an element of remuneration is included therein and consequently that they are contrary to existing legislation covering payments to judges:

1. A judge was appointed to act as an Industrial Inquiry Commission to inquire into the industrial situation arising from the running of certain trains through terminals in Ontario and Alberta. An allowance of \$100 per day plus actual out-of-pocket transportation expenses was authorized and he was paid \$13,200 in allowances in the year under review, although his duties were performed substantially at his place of residence.
2. Certain judges who had been granted allowances of \$60 per day while acting outside their normal judicial duties were granted remission of the additional income tax resulting from receipt of the allowances.

71. *Municipal winter works incentive program.* The federal Government is signatory to agreements with all of the provinces and the Yukon and Northwest territories under which it undertakes to pay a percentage of direct labour costs incurred on site on accepted works projects undertaken during the winter months by municipalities, Indian reserves or bands, and unorganized settlements. The federal Government has been party to similar agreements with the provinces since 1958, the terms having been modified over the years to provide for a wider scope of acceptable projects, an increase in the maximum incentive payable towards municipal buildings constructed, and an increase in the percentage of direct labour costs payable under special circumstances. Incentive payments by the federal Government from the inception of the program to the end of the year have amounted to \$136,741,000.

The prime purpose of the federal payments is to encourage municipalities to create additional winter employment by postponing or advancing work scheduled for summer into the winter period. Embodied in the agreements are certain conditions designed to ensure that the maximum benefit from the additional employment created accrues to persons who would be unemployed in the absence of special winter works projects.

A condition of the agreements is that final claims for incentive payments by the federal Government will be audited by the provincial auditor or an auditor designated by him. In some of the provinces the audit carried out in compliance with this condition included an examination of the records of the municipalities and contractors involved, an essential procedure in determining whether the terms of the agreement are being complied with, whether the charges are legitimate and whether the purposes of the agreement are being achieved. In other provinces, checks were being made of the records of the municipalities but not of the contractors. In Saskatchewan and Prince Edward Island, however, little more than a check of the arithmetical accuracy of the claim and the authority for the projects was being made. The certificate of the provincial auditor was based primarily on the certificates (attesting to the direct payroll costs incurred) provided by the relevant municipalities and contractors, without any examination being made of the underlying records of the municipalities or contractors. In these cases there is reason to doubt whether all charges are legitimate and whether the conditions of the agreements have been met.

A condition introduced in the 1963-64 agreements is that the provinces will permit access by authorized officials of the Government of Canada to records, documents and files of the province and its municipalities as may be deemed necessary for the audit of direct payroll costs claimed under this program. Although a signatory to the agreement, the Province of Quebec has indicated its reluctance to an examination being made of the records of its municipalities by members of the Audit Office on the grounds that these records are already being subjected to extensive examination by the provincial auditor. As a result, we are not examining the records of municipalities in this Province.

Our test examinations of provincial and municipal records and of reports of provincial auditors indicate that the effectiveness of the program in providing benefits to those whom it was designed to benefit is somewhat less than its potential and that there is need for a more specific spelling-out of the terms of the agreements to set straight some questionable practices which have developed:

1. Instances were noted where regular or permanent employees of a municipality were employed on projects without being replaced at their regular jobs by men drawn from the pool of unemployed, as required by the agreement. In these cases, the incentive payment, instead of being diverted to the unemployed, becomes an additional subsidy to the municipality.
2. Many projects carried out by contractors have a labour content which includes supervisors, technicians and engineers, including sometimes the principals of the firm, whose earnings are eligible for reimbursement because they possess special skills and their services are essential to the project. Few of these persons can be considered to be actually seeking employment and, therefore, very little of the reimbursement related to their earnings is directed to the unemployed.
3. The federal incentive payment is 50% of the direct payroll costs of projects except for those carried out in "designated areas" and in areas determined by the Minister of Labour to be areas of high winter unemployment, where the rate is 60%. This incentive, with few exceptions, is supplemented by the provinces, the provincial incentive varying between 25% for most of the provinces to 40% for one province. Since the combined federal and provincial contributions account for from 75% to 100% of payroll costs, the burden on the municipalities can sometimes be small or even non-existent. In these circumstances, there is a tendency for municipalities to undertake 'makework' projects, usually of high labour content, which might otherwise never be undertaken, merely to provide work for its residents.
4. Some unorganized settlements and a few municipalities have financed their share of the cost of projects by assessing each worker a percentage of his earnings. Where this situation has been encountered in the audit the amount assessed has been disallowed as a cost eligible for reimbursement on the grounds that the payroll costs do not represent the municipality's actual outlay for labour expended directly on a project.
5. The agreements stipulate that overtime work, except in emergencies, should be excluded, the purpose being, of course, to encourage either the employment of more workers during the regular working hours or extension of the period of employment. 'Emergency' is not defined and some contractors carried out overtime work for reasons such as to complete a project within the prescribed period of the program, or to complete a project in order to commence another undertaking. The payment of an incentive towards overtime incurred under these circumstances contributes little to the benefit of the unemployed.

6. A condition of the agreements frequently not complied with is one requiring that the facilities of the National Employment Service, where available, be used in hiring workers for accepted projects. As a result it was almost impossible to determine whether workers engaged on projects were, in fact, previously unemployed. Three main factors contributed to the failure to recruit in this manner. First, many urban municipalities are required under terms of union agreements to re-employ members of the union for winter works projects before other unemployed may be recruited. Second, many municipalities and contractors have a policy of employing temporary or laid-off personnel before providing employment for others. Third, in agricultural areas, municipalities employed farmers who, being not insurable under the Unemployment Insurance Act, are frequently not registered with the National Employment Service. Where, in order to comply with this requirement, municipalities or contractors attempted to obtain the approval of the National Employment Service in the above circumstances, they were usually refused on the grounds that the bona fides of the unemployment status of these workers cannot be established and it would be tantamount to rubber-stamping employment transactions in which the National Employment Service did not participate.
7. A property comprising a monastery and surrounding land belonging to a religious order is incorporated as a municipality. As such, it is entitled to have eligible local projects carried out and to be reimbursed the normal incentive payment under the program. Included in the labour costs forming the basis of this municipality's claim in connection with the construction of an auditorium, and ruled admissible charges, were the wages paid to the religious brothers who worked on this project.
8. Instances were noted on projects carried out under contract where the wages shown on the claim were at the rates charged to the municipality by the contractor and not at the rates actually paid by him to his employees.

In addition to the questionable practices noted above, our review of the working paper files of the provincial auditors who carried out a detailed audit of claims revealed instances of fraudulent and irregular practices being disclosed. These practices include the payment of wages to employees for longer hours than were actually worked, the reporting of wages on claims at hourly rates which were more than were actually paid, the inclusion of fictitious employees on project payrolls and the inclusion on project payrolls of municipal employees who were engaged on other than winter works projects.

72. *Electronic data processing system abandoned.* In 1964-65 the Unemployment Insurance Commission, with Treasury Board approval, instituted a program whereby unemployment insurance benefits for the Prairie Region would be paid by mail from a centralized claims payment centre located in Winnipeg. The program was to be implemented by using electronic data processing equipment to replace the existing mechanical tabulating equipment in use in the six payment centres in the Region. The Commission's preliminary feasibility study completed in May 1964 indicated a potential saving from this operation of over \$100,000 a year.

This installation, a prototype for similar centres in each of the Commission's regions across Canada, was expected to be capable of processing a potential load of 90,000 active claims in the Prairie Region. The equipment installed was that recommended by the manufacturer of its main component unit who, in addition to guaranteeing that its performance would meet the Commission's requirements, undertook to do the necessary systems and programming work.

The installation was not a success; it was operated at 10% of its rated capacity and the supporting clerical staff requirements exceeded expectations. The computer operation was abandoned and the equipment returned to the supplier at the end of June 1965.

The failure of this equipment was due to faulty planning by the Commission and the manufacturer. In the haste to make it fully operational before the 1964 winter claim load began, the choice of equipment appears to have been on the basis of availability rather than suitability, with the result that the computer unit installed was not suited to the complexity of the operation. Insufficient time for proper programming was also a factor.

The total cost to the Unemployment Insurance Commission of this regional payments centre in terms of equipment, rental, additional salaries, overtime, travel expenses and other identifiable costs is estimated at \$200,000. The manufacturer had guaranteed that the system would produce initial payments commencing August 17, 1964 and be fully operational by September 1, 1964 and sent several programmers to Winnipeg in an effort to achieve this purpose. No claim has been made by the Commission against the manufacturer for any part of this cost.

Recommendations concerning procurement practices in the leasing of automatic data processing equipment were made by the Royal Commission on Government Organization in Report 4 on "Paperwork and Systems Management".

The case underlines the importance of manufacturers being required to indicate in precise terms the guarantees they offer against failure of their equipment to meet specified performance.

73. *National Defence administrative regulations and practices.* The Public Accounts Committee in its Sixth Report 1964 requested the Auditor General to inform the House of Commons of any case where changes in the Armed Forces administrative regulations appear to be inadequate to bring about the desired results or where abuse and waste of public funds develop (see Appendix 1, item 15). The following matters continue to be unsatisfactory:

1. REMOVAL EXPENSES—MOBILE HOMES.—We stated in last year's Report (paragraph 56 (2)) that the Department was preparing an amendment to the regulations to include specific directions with respect to the movement of mobile homes and their contents. We understand that these regulations have been prepared but have not yet been forwarded to the Treasury Board for approval.
2. UNECONOMICAL MODE OF TRANSPORTATION.—The travel regulations covering the use of privately-owned motor cars by servicemen for temporary duty travel and for transporting themselves and their dependents to new places of duty, etc., were amended effective March 1, 1963 by substituting all-inclusive mileage rates for the previous allowances which were the equivalent of hypothetical expenses calculated on the cost of the journeys by public transportation facilities. The object of this change was to simplify the method of calculating reimbursement, without increasing the expenditures. In the course of our audit of travelling and moving expense claims involving long distances, we found that the allowances paid under the amended regulations were generally in excess of the allowances the servicemen would have received prior to the amendments.

As was pointed out in last year's Report (paragraph 56 (4)), members on duty travel may at the discretion of the commanding officers use their motor cars for their own convenience and are entitled to claim mileage allowances to cover transportation, meals and accommodation. An example was given where a saving of \$400 would have resulted had five men travelled as a group by rail instead of each using his own motor car. In 1964-65, nine naval officers, on the authority of their commanding officers, travelled on duty separately by car from Halifax to Victoria and return to attend a course of instruction in Victoria for the period January to May 1964. Expenses claimed by the officers for the trip, comprising the mileage allowance and charges for excess baggage and ferry tolls, totalled \$5,282. An estimated \$4,600 could have been saved had they travelled by service aircraft.

We have been informed that a comprehensive evaluation of the present allowances is being undertaken by the Department.

3. **TRANSPORTATION ON LEAVE ALLOWANCE.**—Departmental regulations provide for transportation allowance of two and one-half cents for each mile travelled in excess of 500 miles to assist servicemen financially who proceed to their homes on leave. The length of the journey is calculated by using railway competitive mileage charts for the portion of the trip served by railways, and actual mileage by the most direct route for the remaining portion. A test examination disclosed that since the introduction of special economy rates by the railways, the amounts paid for long journeys are in excess of actual rail fares. The matter of the relationship between the transportation allowance and the now lower rail fares was accordingly drawn to the attention of the Department.

74. *Questionable charge to Vote 15 of the Department of National Defence.* As a Canadian contribution to the International Biological Program under the sponsorship of the World Health Organization and at the request of McGill University, the Department of National Defence provided the repair ship HMCS *Cape Scott* to transport a medical expedition to Easter Island. The additional costs borne by the Royal Canadian Navy appropriation (Vote 15) as a result of this operation are estimated to be \$215,000.

In our view this expenditure is in the nature of a contribution to an outside organization and therefore it is questionable whether it falls within the ambit of a defence appropriation.

75. *Bobcat Program for development of army vehicles.* On November 19, 1964 the Special Committee of the House of Commons on Defence met with officials of the Department of Defence Production to discuss among other matters a statement furnished by the Department to the Committee concerning the Bobcat Development Program. The text of the discussion and statement will be found in Minutes of Proceedings and Evidence No. 21 of this Committee.

The final settlement of the Bobcat Development Program during the past year brought its total cost to \$9,252,908. The program was a failure. No serviceable vehicles were produced and the Government has since entered into a contract for the supply of 961 United States vehicles at an estimated cost of \$32 million.

The history of the Bobcat Development Program starts ten years ago when a contract was placed in 1954 for the development of a mild steel prototype of an infantry carrier to replace World War II Universal Carriers which were rapidly becoming obsolete. The vehicle was delivered to the Army in the fall of 1956 and cost \$1,010,856.

When the project was reviewed in 1956 it was decided to develop a family of light tracked armoured vehicles known as the Bobcat, for use as personnel, field artillery, infantry weapons and cargo carriers, all having the same basic tracked chassis. About the same time the United States Army which had knowledge of this proposal decided to produce its own armoured personnel carrier with essentially the same main characteristics as the Canadian vehicle. However, the U.S. Army did not propose to meet its several requirements with a common chassis as in the Bobcat family.

The Bobcat Program called for development in three phases. The contract for the first phase covering the development and supply of three light tracked chassis at an estimated cost of \$1 million was approved by the Treasury Board in November 1956. The contract was dated January 2, 1957 but on March 29, 1957 it was amended to provide for the supply of the three chassis complete with bodies. This significant change in the contract was not approved by the Treasury Board until November 1957 when an additional \$250,000 was provided for the project. Further amounts of \$350,000, \$200,000 and \$165,000 were approved by the Treasury Board in June 1958, October 1958 and April 1959 to cover estimated additional costs. There was usually a lapse of about five months between the receipt of the contractor's request for additional funds and its processing through the Departments of Defence Production and National Defence before submission to the Treasury Board. The vehicles were delivered to the Army in October 1958, but it was not until April 1959 that sufficient funds were provided to finalize the contract at a total cost of \$1,933,670.

In June 1958 the Chiefs of Staff proposed the initiation of the second phase of the development program for the production of six hard steel pilot models including production drawings at an estimated cost of \$1,310,000. This was later submitted to the Minister of National Defence for his approval and to the Treasury Board. This submission and an alternative proposal by the contractor to telescope the development and pre-production stages into a production order contract were considered by the Treasury Board on January 23, 1959. However, the Board recommended to Cabinet on January 27, 1959 that there should be no departure from the present concept of the orderly development of the Bobcat vehicle including the procurement of a further six pilot models.

The Treasury Board on April 24, 1959 authorized entry into a contract for the assessment of engineering tests on the three existing prototypes which, notwithstanding its previous recommendation to Cabinet, included the production of one armoured hull of a personnel carrier, the design and manufacture of an unarmoured load carrier body, provision of special parts, tools, test rigs and instrumentation, reports, specifications and literature, and provided \$452,000 to initiate the project. In June 1959 the contractor advised that a study of the work required by the Army indicated that funding would have to be increased by \$804,000. On October 29, 1959 the Treasury Board authorized the amount required and made provision for the contract to be amended to include the production of one armoured vehicle complete with armoured hull, a modified version of the prototype design steering and suspension units, the engineering and production of one vehicle set Timken planetary final drives including the drawings, specifications and spares necessary to support vehicle tests, and to provide such tooling, test rigs, and instrumentation as may be required. These amendments were incorporated into the contract on

November 13, 1959. In January 1960 the contractor informed the Department of Defence Production that an additional \$644,000 would be required to complete the contract. This amount was provided by the Treasury Board in June 1960, by which time the Board had authorized expenditures of \$1.9 million. The armoured personnel carrier was delivered to the Army in October 1960 and was found to be 2,000 pounds overweight and in need of product improvement before it could be accepted for field use. About the same time the contractor explained that funds originally intended to complete drawings and specifications had been used to cover additional changes in the scope of the actual development work as it progressed, and that a further \$75,000 was required to complete drawings and specifications, which was approved by the Treasury Board on October 28, 1960. The final cost of the work under this contract totalled \$1,972,692, bringing expenditure on the program to this date up to \$4,917,218.

On February 11, 1961 the Cabinet authorized the procurement of 500 Bobcats at an estimated cost of \$25 million on the following basis:

- (a) a pilot production run of 20 vehicles to be carried out at this time at an estimated cost of \$3.7 million (included in the above total) to cover the vehicles, tooling and other related costs; and
- (b) on completion of the pilot production, tenders to be invited for the remaining vehicles on a firm fixed price.

By this time the U.S. Army had its armoured personnel carriers in service, whereas the Department of National Defence was not yet in a position to go into full scale production because only one vehicle had been delivered which was overweight, required further product improvement and had not been proven operationally.

When the Treasury Board authorized the contract referred to under (a) above, the view was expressed that a tight control over specifications governing work under the contract should be maintained at all times. For this purpose the Board requested that an interdepartmental committee continue to screen all proposals involving product improvement before approval was sought to amend the provisions of the contract, and that a member of the Treasury Board staff participate in the work of the committee so that the financial implications of product improvement would be kept constantly to the fore. The interdepartmental committee was formed on April 10, 1961 from which date it held regular monthly meetings.

The contract for the pilot production run, dated April 13, 1961, provided separate estimates of expenditure under each of the following headings: product improvement, production tooling, plant rearrangement, and vehicle production, with the aggregate liability of the Crown under the contract being limited to \$3.7 million. The contract also provided that the contractor was to advise the Minister well in advance if any of the estimated expenditures were likely to be exceeded, and unless such new estimates of expenditure were approved by the Minister any expenditures incurred by the contractor causing the original estimates to be exceeded were not to be reimbursed to the contractor but at no time were the new estimates to increase the liability of the Crown beyond the ceiling price of \$3.7 million.

The contractor's progress report, giving the financial position of the contract at December 31, 1962, submitted to the interdepartmental committee, revealed that expenditures under two headings of the contract had been exceeded. A subsequent report giving the financial position at March 31, 1963 revealed over-expenditures under all headings of the contract except for plant rearrangement. In August 1963 the contractor indicated unwillingness to continue the contract unless additional funds were provided by the Crown. In September 1963 the interdepartmental committee reported the position to the Treasury Board at which time the contractor's reported costs to July 26, 1963 were as follows:

	Estimated expenditure	Contractor's reported costs	Excess of cost over estimate
Product improvement.....	\$ 1,096,516	\$ 1,238,328	\$ 141,812
Production tooling.....	520,570	621,996	101,426
Plant rearrangement.....	32,636	32,285	(351)
Vehicle production.....	2,050,278	2,848,430	798,152
	<u>\$ 3,700,000</u>	<u>\$ 4,741,039</u>	<u>\$ 1,041,039</u>

The contract was terminated in December 1963. In February 1964 the contractor informed the Department of Defence Production that, after making an allowance of some \$42,000 for post-termination costs, the total costs had exceeded the payments received from the Crown by about \$1,636,000. The contractor proposed that the excess costs should be shared equally with the Crown on the grounds that "the full implications of the proposed improvements were not appreciated when the contract was let and accordingly there was a considerable under-assessment of the effort required and costs involved. The original armoured prototype, on which the concept of the contract was based, certainly did not measure up to the specifications written for and applied to the new vehicles" and experience had shown that, instead of a product improvement program, this phase of the work involved a redesign of about 90% of the machine. The contractor made formal claim for reimbursement of \$799,612 additional costs and was prepared to absorb all post-termination costs including those involved in the scrapping of the vehicles.

Notwithstanding the fact that the Crown had no legal obligation to pay the contractor's claim (a position which the contractor himself acknowledged) the Department considered that there had been a change in the scope of the work and recommended to the Treasury Board that the claim be settled and this was negotiated and paid in an amount of \$735,621 in April 1964. In the opinion of the Audit Office this constituted an ex gratia payment which should have been disclosed as such in the Public Accounts.

Non-productive expenditure of public funds of this magnitude should be subjected to the most searching inquiry to determine how it might have been minimized or contained. Officials of the Department of Defence Production told the Special Committee on Defence that while it was difficult to determine precisely all the factors which resulted in the

termination of the Bobcat Development Program, it could be said with some certainty that the following were contributing factors:

1. The scope of the program was not adequately defined at the early stages of the program and consequently the program was inadequately financed. The necessity of re-funding and re-approval at various stages throughout the program resulted in lengthy delays.
2. The design requirements for the Bobcat were altered a number of times over the course of the program which necessitated changes in the development of the vehicle although this is not abnormal in a development program and was probably not a major consideration in the ultimate lack of success.
3. Similar developments were undertaken in the United Kingdom and in the United States and at the time of cancellation of the Bobcat fully operational vehicles were available from the United States at considerably less than the projected cost of the Bobcat and with much earlier delivery for Canadian Army use. The United States vehicle had by that time also been adopted by a number of other NATO countries.

76. *Additional cost resulting from failure to exercise option to renew agreement for the supply of natural gas.* An agreement for the supply of natural gas to Camp Wainwright, Alberta, at 21 cents per thousand cubic feet, contained a clause giving the Minister of National Defence the option of renewal for a further period of four years upon termination of the agreement on January 2, 1964.

Instead of exercising the option, a new agreement was entered into for the supply of gas at 23 cents per thousand cubic feet, plus a service charge of \$100 per month. Based on the year's consumption, the additional cost to the Crown through failure to exercise the option is approximately \$3,900, which over the life of the agreement will amount to approximately \$15,000.

77. *Bomb Toss Computer.* In order to meet the requirements of existing bombing techniques, a Bomb Toss Computer was selected in 1959 for installation in the new CF-104 aircraft, the first of which was scheduled for delivery in March 1961. A contract with a Canadian manufacturer for work preliminary to the production of the Bomb Toss Computer in Canada was completed at a cost of \$332,000.

On May 25, 1960, although the drawings for the Computer were still in preparation, a contract was entered into with the same manufacturer for the purchase of production inventory material for the manufacture of the first 50 units. The estimated cost of this material was \$885,000.

In the meantime there was a trend developing away from the technique requiring the use of the Bomb Toss Computer and in August 1960 it became known that another type of weapon would very likely become available which would not require the use of this Computer.

In September 1960 the contract was extended to cover the procurement of production inventory material for an additional 188 units at a cost estimated at \$3,481,000. The reasons given to the Treasury Board for the need to extend the contract at this particular time were that there was a very tight delivery requirement to meet the aircraft delivery

schedule and that cost savings and a higher Canadian labour and material content would be achieved by purchasing production and spares support inventory concurrently.

In November 1960 it became necessary to equip the CF-104 aircraft with Dual Timers for the delivery of a new type of weapon. These Dual Timers, two of which were required in each aircraft, were being produced in the United States.

At this time it was considered that the Dual Timer did not duplicate the service provided by any of the other weapons systems, nor did it detract from the original purpose or operational value of the existing systems. It was therefore decided that the CF-104 was to be equipped with the two weapons delivery devices.

In February 1961 the contract for the Computer was amended to reduce the purchase of production inventory material from that required for 238 units to that required for 168 units, and at the same time the contract was further amended to include the purchase of 35 completed units on a cost plus ceiling price basis from the Canadian manufacturer, and a further 35 completed units at a lot price from the Canadian manufacturer's associated company in the United States.

In June 1961 the Royal Canadian Air Force discontinued pilot training for the type of weapon the Bomb Toss Computer was designed to deliver, a decision which cast further doubt on the future of the Computer. Nevertheless, it was decided that "the Computer be left in the aircraft to give flexibility of weapon employment for the future", and in September 1961 the contract for the Computer was further amended to provide for the manufacture of 168 additional Computers at a unit price of \$21,933.

This last amendment increased the amount of the contract to \$5,931,000 covering the following:

Purchase of 35 complete units from the Canadian contractor on a cost plus ceiling basis which averaged \$28,500 per unit.....	\$ 999,000
Purchase of 35 complete units manufactured by the United States associate of the Canadian manufacturer at a lot price which averaged \$30,300 per unit.....	1,061,000
Purchase of 168 units from the Canadian manufacturer at a price of \$21,933 per unit.....	3,685,000
Qualification, sample testing and modification kits.....	186,000
	<u>\$ 5,931,000</u>

Although deliveries under the contract are complete, the contract has not yet been fully settled and changes may occur in the above figures.

By July 1962 it was concluded that the Bomb Toss Computer had severe limitations and would require extensive modifications if it were to be used. It was also found that the Dual Timers, which cost approximately \$1,400 per aircraft compared with \$21,900 per aircraft for the Computer, could provide an accuracy at least as good as that which could be obtained by the Bomb Toss Computer. In January 1963 it was decided to remove the Bomb Toss Computers from all aircraft and to place them in long term storage, and in April 1964 it was decided to dispose of the Computers together with all tooling, test equipment and spares.

Other contracts were involved in the Bomb Toss Computer program, the overall cost of which was \$7,210,000 as follows:

Preliminary work.....	\$ 332,000
Acquisition of 238 units—detailed above.....	5,931,000
Tooling and special production test equipment.....	229,000
Support spares.....	718,000
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	\$ 7,210,000
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78. *Excessive payments to municipal school board.* In June 1957 the Department of National Defence entered into an agreement with a municipal school board for the provision of schooling to dependent children residing in married quarters at an R.C.A.F. station.

The Department agreed to provide capital assistance towards the cost of construction of the school, and to pay a share of the annual operating expenses proportionate to the number of service children enrolled. Clause 4(c) of the agreement stipulated that (a) payments in respect of the operating expenses less provincial grants would be adjusted at the end of each school year and any balance owing would be paid by the Department upon presentation by the school board of a statement of the actual operating expenses, and (b) the school board would refund "any moneys that were in excess of the operating expenses less provincial grants for the preceding school year".

The files reveal that although the Department had been billed each month since September 1956, the effective date of the agreement, for its share of the gross operating expenses, at no time since that date had an adjustment been made in accordance with clause 4(c). As a result, refunds due the Department in July 1963 were estimated to be in excess of \$200,000. Having failed to induce the school board to refund the amount overpaid, the Department took steps in October 1963 to avoid current overpayments by reducing payments to 50% of the operating expenses. The reduced payments approximate the Department's share of the current operating expenses less provincial grants, but make no provision for recovery of the amount already overpaid for the years 1956 to 1963. The Department is continuing to seek a satisfactory settlement.

79. *Cancellation of Canada-United States radar site construction program.* In 1958 the decision was taken to construct "gap filler" radar sites to improve the Continental Air Defence System with the installations to become operational by July 1963. The Canadian and United States authorities agreed that the Royal Canadian Air Force would be responsible for the cost of providing the sites, buildings and services, and the United States Air Force would be responsible for the cost of supplying and installing the radar equipment. In order to reduce the period of vulnerability, it was decided that the construction of sites and the development of the new radar equipment would be carried out concurrently.

The United States authorities considered that, with minor modifications, the required radar units could be developed from radar sets then in inventory. However, by early 1963 the contractor to whom the work had been assigned had not been able to produce satisfactory equipment and as a result the sites did not become operational. As it did not then

appear likely that equipment meeting the required specifications could be developed and installed within the period during which the facilities were deemed essential to the air defence plan, the program was cancelled by mutual agreement.

The cost to Canada of proceeding with its commitments under this program is expected to aggregate \$3.5 million. This is largely accounted for by consultants' fees, property expenses and construction contracts which have amounted to \$3.1 million. Additional costs will include further property expenses, amounts pertaining to termination of leased communication facilities (for one-third of which Canada was liable), and loss incurred on the final disposal of the generators purchased specifically for the gap filler program. The costs will in turn be reduced by whatever amounts can be realized by Crown Assets Disposal Corporation from the sale of sites, buildings, equipment and materials and by the value of materials taken into inventory by the Royal Canadian Air Force.

80. *Additional cost of constructing runway and access taxiways at R.C.A.F. Station, Chatham, N.B.* In December 1961 the Treasury Board authorized entry into a contract for the construction of a runway and access taxiways at the R.C.A.F. Station, Chatham, at an estimated cost, as amended, of \$1,060,000, based on estimated quantities and firm unit prices. Adjustments to the contract to cover extra work and additional quantities at a cost of \$642,000 and increased haulage costs of \$160,000, increased the contract price to \$1,862,000.

In April 1963 the contractor submitted a claim for additional costs of \$506,000 resulting from a truckers' strike, late acquisition of lands, gravel compaction tests, extra excavation and fill, change in specifications for gravel and asphalt and completing asphalt work late in the season. With the approval of the Treasury Board the claim was settled during the year for \$476,000, summarized as follows:

Equipment rental, labour and overhead, standby charges.....	\$ 234,000
Additional costs resulting from renegotiated unit prices.....	93,000
Payment for abandoned work on blending of fines.....	60,000
Additional work.....	37,000
Use of additional plant.....	15,000
Cost of maintaining campsite during strike.....	14,000
Expropriation delays.....	12,000
Financing costs.....	11,000
	<hr/>
	\$ 476,000
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In addition, the Treasury Board authorized payment of \$11,000 for reprocessing by the supplier of asphalt primer which failed to produce satisfactory results because of the cold, wet conditions prevailing in the period during which the work had to be performed.

The final cost of the contract was therefore \$2,349,000.

81. *Cost of terminating an agreement and lease of married quarters, R.C.A.F. Station, Grostenquin, France.* Agreement was reached with the North Atlantic Treaty Organization to reorganize No. 1 Air Division, Royal Canadian Air Force, stationed in Europe. This

involved moving the squadrons of 2 Fighter Wing from Grostenquin, France to Zweibrücken and Baden Soellingen in Germany and closing R.C.A.F. Station, Grostenquin.

As there would be no requirement for married quarters after the Station was closed, the Governor in Council on March 30, 1965 approved the termination of a lease under which the Department had been renting and giving rental guarantees in respect of 443 housing units and 17 school classrooms at nearby St. Avold.

In consideration for termination of the lease and guarantee agreement, which was effective until June 30, 1967, the Department paid the lessor the sum of \$785,000.

82. *Cost of terminating leased communication facilities.* In accordance with an announcement by the Minister of National Defence on March 9, 1964, four radar stations of the Pine Tree Line were closed down and contracts covering rental of on-base telecommunication and ancillary equipment were terminated. Termination charges paid under these contracts amounted to \$309,500 of which Canada's share was \$254,500.

83. *Electrical relays found unsuitable.* In 1958 a contract was awarded to a United States firm for the supply of 3,400 electrical relays for the Royal Canadian Air Force at a cost of \$75,000. When put into service the relays were found to be unsatisfactory and some 3,100 were returned to the supplier for correction. Tests made on reworked relays disclosed that they were unsatisfactory and could not be successfully adapted to their intended use. It was subsequently learned that in attempting to produce a better product, the supplier had deviated from the configuration of the eight original prototype relays that had met all the Air Force requirements and on the strength of which the contract had been awarded.

In 1961 the supplier was requested to make a financial settlement but he contended that while he was prepared to continue to assist in resolving the problem of putting the relays into effective use, he was under no obligation to refund the purchase price. Legal action against the company was not taken as the eight original prototype relays had all been lost or discarded and thus there was no evidence to support the case.

Some 3,000 relays in the hands of the supplier were subsequently reported to Crown Assets Disposal Corporation for disposal and they were purchased by the supplier for a negotiated price of \$610.

84. *Pension awards effective at early age.* In previous Reports reference was made to the number of servicemen being retired at early ages, in some instances under 30. Although the amounts of annuities are not large due to the short periods of service, the potential cost is substantial because of the relatively longer life expectancy. During the year, 391 servicemen aged 40 and under were retired with immediate annuities aggregating \$472,000 annually. In 1963-64 there were 286 servicemen in this category retired with immediate annuities and in 1962-63 the number was 201.

The Department has been reviewing the existing provisions of the Canadian Forces Superannuation Act and has been considering the merits of providing deferred annuities similar to those available to civilian employees but does not contemplate proposing any changes until a more detailed study embracing the implications of the Canada Pension Plan has been completed. (See Appendix 1, item 20.)

85. *Discretionary awards of Service pensions.* In our Reports for 1963 and 1964 (paragraph 65) we noted that in determining pension awards every possible consideration is given to the welfare of the individual serviceman, and that it is sometimes questionable whether a reasonable balance is struck between fairness to the serviceman on the one hand and economy of public funds on the other. In the year under review similar cases were noted as follows:

1. In three instances servicemen with slightly more than the minimum period of service were awarded full pensions, being retired as medically unfit. Information on file indicated that this reason was of secondary importance and that, had the primary reasons been recognized, contributions amounting to some \$11,000 would have been repaid instead of annuities having a present value of about \$85,000 being awarded. In addition, each of the servicemen received the special benefit paid to members released because of integration of the Forces. Pending release, the servicemen attended extensive courses in electronic data processing and programming and retired to continue in that field of employment in the public service and in industry. In each case the new employment was begun on the first day of terminal leave which was approximately three months before release date. Had the servicemen been granted voluntary releases, they would have received a return of pension contributions as noted above, with no entitlement to the special benefit.
2. Four servicemen were awarded full pensions, having been retired compulsorily as medically unfit, with annuities having a present value of \$129,000 and special benefits amounting to \$14,260. The first, a serviceman 32 years of age with 13 years service, over-weight for four years, presumably was unable to regain normal fitness. In the second case, although the Service medical consultant did not consider that the officer's condition warranted a release on medical grounds, he felt that departure from the Service to satisfy his desire to return to farming together with adjustment of his marital problems would bring rapid improvement. In the third case, the serviceman did not require hospitalization and active therapy and it would appear that the reason for the termination of engagement was unsatisfactory service. The fourth serviceman, aged 26 years, was released as disabled after serving ten years although the real reason appeared to be that he was not advantageously employable due to restricted learning ability and a desire to be released to accept civilian employment.
3. Two servicemen of equivalent rank with comparable service and military records were retired with materially different benefits. In one case, an airman was recommended for release on medical grounds in spite of the fact that a personal assessment report at the same time recommended his promotion. He was awarded benefits having a present value of \$22,000. In the other case, a leading seaman was considered disabled by the medical authorities, but the Service Pension Board determined release to be voluntary and he was given a return of contributions of \$2,060.

The Department is endeavouring to achieve a system under which the entitlement to all pensions will be specific. If this were possible it would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. However, no action has yet been taken to revise the present system as recommended by the Public Accounts Committee (see Appendix 1, item 21).

86. *Questionable period of service included when determining pension benefit.* During the year six cases were noted in which officers and men released on pension had been

credited with pensionable service dating in one case from the age of nine and in five other cases from ages eleven and twelve.

File documentation in respect of the early service was fragmentary, statutory declarations being accepted. In response to an Audit Office query about the officer whose service began at age nine, departmental officers replied that while enlistment at this age was contrary to regulations, the officer had not been discharged as being under age and consequently they were satisfied that he had served. In addition, they noted that the review board had agreed that the time claimed was in fact valid and since the officer had elected to contribute to the Canadian Forces Superannuation Account he was eligible to count the service as pensionable.

In our opinion the acceptance of such service for pension purposes is unrealistic and an abuse of the pension privilege.

87. *Unemployment Assistance.* The Unemployment Assistance Act, 1956, c. 26, provides for payment by the federal Government to the provincial and territorial governments of 50% of the cost of providing assistance to persons unemployed and in need. As early as 1958 our Report made reference to ambiguities in the text of the Act and to the resulting difficulties in administration. Subsequent Reports drew attention to further difficulties in administration that had come to our attention. These difficulties arose mainly from the inadequate definition of shareable costs and from the relationship between this program and other programs of social assistance. In our 1961 and 1963 Reports we recommended that consideration be given to the overall co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration.

The Public Accounts Committee in its Fourth Report 1963 concurred in the view that Parliament should give consideration to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. The Committee also suggested that consideration be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field (see Appendix 1, item 4).

During 1965 discussions took place between the federal and provincial governments with a view to introducing a comprehensive assistance plan which would embody assistance to all persons in need, including those presently eligible for social assistance in such form as unemployment and old age assistance and blind and disabled persons allowances.

During the year the following two additional questionable items of assistance were noted in provincial claims against the federal Government:

OVERLAPPING OF ASSISTANCE.—Section 8 of the agreement entered into with the provinces under the Act permits federal sharing of any additional relief payments made to recipients of other forms of social assistance, including Unemployment Insurance, in the circumstances where the basic assistance is not adequate to meet all of the recipients' need. In one province Unemployment Insurance benefits received for the first two weeks of entitlement have been disregarded as income in the determination of need.

FULLY-EMPLOYED RECIPIENTS OF ASSISTANCE.—Assistance was being paid in one province to persons fully employed, to enable them to obtain housekeeping services where the spouse was unavailable or incapable of participating in family responsibilities.

88. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* In previous years doubt has been expressed as to whether the terms of the agreements with the various provinces under the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, relating to payments to federal hospitals, were being adhered to in all cases.

In our 1963 Report reference was made to the refusal of the Province of British Columbia to pay Miller Bay Indian Hospital for insured services to insured residents when the accounts were not accompanied by a certificate from the nearby Prince Rupert General Hospital that they had no accommodation available, despite the fact that the Indian hospitals had been included in the Hospital Insurance Agreement with the Province in recognition of their role in providing general hospital care to Indians. Reference was also made to reimbursement at per diem rates set by the Province below cost and below the corresponding rates at the Prince Rupert General Hospital, and to the fact that the Province deems some of the care given insured patients unnecessary and will not pay for it.

The Province of British Columbia has now agreed to accept a maximum of 4,400 patient days per year for which payment will be made to the Miller Bay Indian Hospital without a certificate from the Prince Rupert General Hospital as to the non-availability of accommodation. However, the number of patient days for insured services during 1964 exceeded the allowable limit by 25% and payment for the excess amounting to \$13,000 has been refused by the Province.

In our 1964 Report (paragraph 68) we drew attention to the situation in Alberta where, although the rate payable to federal hospitals has been fixed by provincial regulations, the Province has for several years paid less than this rate on the grounds that the lengths of stay in federal hospitals are considerably above the provincial average.

We also noted that the accounting in federal hospitals generally was not in accordance with the Canadian Hospital Accounting Manual which provides a basic accounting system for purposes of the Act; that accounting and medical records in some Indian hospitals could not be said to be adequate for preparation of the necessary financial returns required by the agreements with the provinces; and that it was not always possible to determine rates by reference to comparable non-federal hospitals because of the specialized nature of many federal institutions. We recommended that steps be taken to bring federal hospital accounting in line with requirements where necessary and that revisions to the agreements should be made to the end that all the terms may be fully complied with.

In the circumstances it is still not possible in all cases to appraise the adequacy of settlements being made by the provinces for services provided under the agreements to insured patients in federal hospitals.

89. *Grant to International Society of Soil Mechanics and Foundation Engineering.* The National Research Council with the approval of the Treasury Board made a grant of \$5,000 to the International Society of Soil Mechanics and Foundation Engineering to

assist in defraying the costs of a conference of the Society being held in Canada. The grant was paid in four instalments, a portion being charged to the appropriations for 1964-65 and the remainder charged to the 1965-66 appropriations.

The Conference was conducted by the National Research Council in the name of the Society. However, the manner in which the Conference's financial affairs were administered raises several questions. Payment of the grant was made by cheques drawn to the order of the Sixth International Conference of Soil Mechanics and Foundation Engineering and delivered to and negotiated by members of the staff of the National Research Council who were members but not officers of the Society. The cheques were deposited in a local bank and the proceeds used for payment of expenses of the Conference by means of cheques signed by the staff members.

A budget of \$125,000, subsequently increased to \$170,000, was established for the Conference. The funds needed over and above the registration fees, sale of conference papers and the Council's grant of \$35,000 were sought in the name of the Society from industry and other interested persons, the letter from the Society asking that cheques be made payable to the "Receiver General of Canada (Soil Mechanics Conference, 1965)". The cheques were deposited in a trust account in the Consolidated Revenue Fund and since they represented donations to the Crown, receipts were issued by the National Research Council so as to render the payments eligible for deduction by the donors from income that is taxable. The amounts collected in this way together with the other revenues were, with few exceptions, deposited in the Consolidated Revenue Fund before being transferred by the Council to the local bank in order to meet the conference expenses of the Society. The exceptions represented amounts such as fees and proceeds from sale received in the form of currency and which were deposited directly in the local bank account.

We have no adverse criticism of the manner in which the National Research Council and its officers discharged their responsibilities to the Society under these arrangements. We do find, however, that arrangements of this type transgress many of the principles governing effective control of public funds. They permit the mixing of public funds with funds raised by and belonging to a private society and which in our opinion should be administered by that society in its own name and on its own responsibility.

90. *Departmental practices which lack statutory sanction.* In its Eighth Report 1964 the Public Accounts Committee recommended that four practices being followed by the Customs and Excise Division of the Department of National Revenue should receive statutory sanction if they are to be continued (see Appendix 1, item 37). These four practices concern

- (a) release of goods under customs collector's permission;
- (b) sales of goods unclaimed at Customs;
- (c) duties and taxes on surplus United States Government property sold in Canada; and
- (d) determination of "sale price" for sales tax purposes.

Three additional departmental practices which lack statutory sanction were noted in our 1964 Report, as follows:

paragraph 70—remission of duties on certain motor vehicles and parts;

paragraph 72—refunds of duties and taxes on estimated basis; and

paragraph 73—refund of duty paid on goods diverted to use other than that for which they were imported.

There were no amendments to the Customs Act during the year and the seven departmental practices referred to above as lacking statutory sanction were continued throughout the year. However, an amendment to the Customs Act in 1965-66 (1965, c.16) gave statutory sanction to items (a) and (c) above. The amendment also provided statutory sanction to the practice referred to in paragraph 70 of our 1964 Report dealing with "remission of duties on certain motor vehicles and parts".

91. *Settlement of sales tax on percentage of total sales.* In previous Reports instances have been cited in which the Department of National Revenue has authorized the computation of sales tax on less than the actual sale price contrary to the provisions of the Excise Tax Act. The Public Accounts Committee in its Eighth Report 1964 (see Appendix 1, item 37) included the following recommendation with respect to this practice:

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

During the year another method of assessing sales tax came to our attention which indicates that proposals designed to give statutory sanction to the collection of sales tax on other than the basis required by present legislation must be carefully examined if a loss of revenue is to be avoided.

In 1962 the Department became aware of an unsatisfactory situation with regard to exemption certificates covering tax-exempt sales of oil filters for internal combustion engines sold to farmers, loggers and fishermen. Following an investigation the Department ascertained that approximately 50% of the oil filters manufactured in Canada for use in internal combustion engines were used under tax-exempt conditions. It therefore ruled, contrary to the provisions of the Act, that henceforth the sales tax of 11% would be applied to only 50% of the total sales of each manufacturer on the understanding that exemption certificates would not be required nor would the Department consider any refund claims with respect to such filters.

Under this arrangement each manufacturer is expected to remit to the Receiver General 11% tax on only 50% of all his sales of filters to unlicensed dealers.

With effect from June 14, 1963, engines used in the logging industry were deleted from the schedule of exemptions. This, of course, reduced the number of oil filters used under tax-exempt conditions but, due to pressure of work, the Department had not yet been able to carry out the necessary investigation to determine a new percentage of sales on which the tax is to be applied.

This matter came to our attention when a routine Excise Tax audit resulted in an additional assessment of \$3,605 which took into consideration changes made in the Excise Tax Act in June 1963. This additional assessment was reduced by \$3,193 because of the departmental ruling issued prior to the changes in the Excise Tax Act and which is still in effect.

92. *Refund of sales tax on materials used in construction of certain buildings.* In paragraph 71 of the 1964 Report attention was directed to section 47A of the Excise Tax Act, 1963, c. 12, which reads as follows:

- Where materials have been purchased by or on behalf of
- (a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution, or
 - (b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis,

and the tax imposed by Part VI has been paid in respect of those materials, the Minister may, upon application by such institution or organization in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to such institution or organization an amount equal to that tax.

In order to simplify the arrangements by which the refund could be granted, an Order in Council was passed which established a formula designed to determine the "approximate" value of taxable material in a building and to "estimate" the amount of the refund that may be claimed. This formula continued to be the basis for refunds throughout the year under review.

Section 47A directs the Minister to pay an amount equal to the tax that has been paid and there does not appear to be any authority in the Excise Tax Act to pay a refund based on an estimated taxable value of materials incorporated into a building.

93. *Crown-owned houses located at Coutts, Alberta, declared surplus to requirements.* Although there had been no reduction in the staff of the Port of Coutts, four residences, two double garages, one pump house and the land on which these buildings were located were declared surplus to requirements by the Customs and Excise Division, Department of National Revenue. These buildings were originally constructed at a cost of approximately \$61,000 in 1953 for the use of Customs-Excise officers.

Three of the houses and lots have been sold for \$12,600 by Crown Assets Disposal Corporation. The fourth property was offered for sale but only one offer of \$2,000 was received and this was not accepted. The price obtained for the properties sold may be in line with current values but a loss of this magnitude suffered by the Crown on properties built only twelve years previously raises the question of the justification for the construction of the houses in the first place.

94. *Drawback paid on goods destroyed after release from Customs.* In the 1964 Report (paragraph 76) we questioned the right of the Governor in Council to authorize under authority of the Customs Act a drawback of all or part of the duties paid on goods which are destroyed after release from Customs, when section 22(6) of the Financial Administration Act expressly forbids the Governor in Council to remit the tax under the same circumstances.

On the recommendation of the Department, the Governor in Council has since revoked the offending regulation but no steps have been taken to recover the amount of \$2,525 which was remitted illegally.

95. *Commissions for issue of provincial hunting and fishing licences and permits.* Certain customs and immigration officers have been granted permission by their respective departments to issue provincial hunting and fishing licences and permits when requested to do so by provincial governments and to retain as remuneration any commissions paid to them.

In British Columbia federal officers issued fish and game licences amounting to \$250,000 in 1963. The commission on this amount was \$25,000, some officers receiving over \$400. At one port, where thirty federal officers are employed, licences valued at \$115,000 were issued, resulting in commissions of \$11,500.

Since these officers are members of the federal public service employed on a full-time basis, it would appear that commissions earned should be paid to the Crown.

96. *Customs and Excise laboratory.* The primary function of the laboratory is to identify and classify by chemical or physical means various materials described in the Customs Tariff, the Excise Act and other Acts of Parliament administered by the Department of National Revenue and to advise departmental officials on the drafting and enforcement of regulations where chemical or related scientific information is involved.

In 1964-65 the laboratory incurred costs of approximately \$120,000 in analyzing some 9,700 samples of which more than 6,000 came from the Customs Appraisers Branch. This number, however, does not include opinions given verbally because of the need for quick decisions.

A number of the cases involved appeals against assessments of duties but in such cases the Department does not follow the usual practice of requiring that an appeal be accompanied by a deposit, to be returned if the appeal is sustained. Other cases for which no charge is made originate in requests from importers or exporters through the Customs Appraisers Branch, a number of which result in direct benefit to the importers or exporters.

Consideration should be given to the institution of appeal fees and to the adoption of a tariff of fees to be charged for professional services rendered to importers and exporters.

97. *Part-time Customs and Excise Enforcement Officer.* A Customs and Excise officer is usually a full-time employee of the Customs and Excise Division of the Department of National Revenue and his duties include the enforcement of the provisions of the various Acts administered by that Division.

At one small port on the border the sole representative of the Department is a Customs and Excise Enforcement Officer who is employed on a part-time basis. This officer has extensive business interests in the area, mostly catering to the travelling public. A departmental investigation based on complaints resulted in this officer being severely reprimanded by the Department for failure to properly enforce the provisions of the Customs Act. There has been a notable improvement in the officer's work, the files indicating an increase in the revenue collections at this small port and in the issue of tourist exemptions, temporary admissions and automobile and pleasure craft permits. Increases have also taken place in the number of general receipts issued covering abandonment of alcoholic beverages and cigarettes.

In our view there is a conflict of interest in this situation and as the importance of a border crossing point is not necessarily measured by the volume of traffic passing through it, it would be preferable were the interests of the Department looked after by a full-time customs officer who has no business interests in the area being served.

98. *Sight entries.* In certain cases when, due to lack of information or documentation, it is not possible to prepare final customs entries covering imported goods at the time of their release from Customs, the collector may accept what is known as a "sight entry" accompanied by a deposit of a sum of money sufficient, in the judgment of the customs officer, to pay the duties. The importer is subsequently required to complete a "perfecting entry" within a time limit set by the collector. This procedure is provided for by sections 24 and 25 of the Customs Act, R.S., c. 58:

24. (1) If the importer of any goods, or the person authorized to make the declaration required with regard to such goods, makes and subscribes a declaration before the collector or other proper officer, that he cannot, for want of full information, make perfect entry thereof, and takes the oath in such cases provided, then the collector or officer may cause such goods to be landed on a bill of sight for the packages and parcels thereof, by the best description that can be given, and to be seen and examined by such person and at his expense, in the presence of the collector or other proper officer, or of such other officer as is appointed by the said collector or other proper officer, and to be delivered to such person, on his depositing in the hands of the collector or officer a sum of money sufficient in the judgment of the collector or officer to pay the duties thereon.

(2) If the importer does not complete a perfect entry within the time appointed by the collector, the money so deposited shall be taken and held as duty accruing on such goods, and shall be dealt with and accounted for accordingly.

(3) In all cases where such goods are purchased or consigned a sufficient invoice therefor as provided in section 26, shall be produced within the said time appointed by the collector, and in default thereof the importer is liable to a penalty equal to the amount so deposited with the collector recoverable in any court of competent jurisdiction.

25. Such sight entry may be made as aforesaid and the goods may be delivered, if such importer or person as aforesaid makes oath or affirms that the invoice has not been and cannot be produced, and pays to the collector or proper officer aforesaid a sum of money sufficient in the judgment of such collector or officer to pay the duties on such goods; and such sum shall then be held as duties.

The Act requires that when a perfect entry is not completed within the time set by the collector, the deposit shall be accounted for as duty accruing on the goods. In our opinion this precludes any amendment of the time set by the collector after the time has expired.

In practice, extensions beyond the period approved by the collector are often granted even without a request from the importer and refunds of deposits or parts of deposits are made by the collector after expiry of the time limit. Penalties are rarely assessed against importers when documents are not produced in order to perfect the entry.

We are of the opinion that refunds after expiry of the time limit are illegal and failure to assess penalty when an entry is not perfected may result in loss of revenue as it is generally accepted that in such cases the deposit based on the original appraiser's estimate of the duties was insufficient to cover the duties.

99. *Bonded warehouses.* The trend in the Customs and Excise Division of the Department of National Revenue is to effect speedier release of goods to importers by deferring payment of duties at time of entry. Similarly, the requirement that a customs officer be present whenever goods are being released from a bonded warehouse has been dispensed with by eliminating the dual lock procedure, as recommended by the Royal Commission on Government Organization. These concessions benefit the importers but also involve a calculated risk in the collection of the revenue.

When the customs surcharge was imposed in 1962, a number of importers made use of bonded warehouses in order to delay payment of customs duty in the hope that by the time the goods were actually required, the surcharge might have been removed. This increased use of such facilities inevitably involved the Department in additional supervision costs. It is not uncommon for goods to remain, with the approval of the Governor in Council, in customs bonded warehouses for periods in excess of five years.

In these days of rapid communication and transportation the need for bonded warehouses may not be as great as it once was. We asked the Department whether any consideration had been given to amending the Customs Act in order to eliminate customs bonded warehouses for storage of imported goods for lengthy periods of time without payment of duty and if it was in a position to establish whether the licence and special service fees collected from proprietors of warehouses were sufficient to meet the departmental costs of supervising and controlling these warehouses.

The Department was of the opinion that elimination of bonded warehouses could restrict current trade practices and large volume buying by importers. It also pointed out that the bonding of warehouse establishments allows an individual to operate a bonded warehouse in conjunction with a retail sales outlet permitting duty free merchandise to be sold for export.

The Department informed us that the regulations and procedures respecting customs bonded warehouses are under review and that it proposed to conduct an administrative cost analysis of warehousing operations in order to establish a new scale of licensing fees.

100. *Possible loss of excise tax.* The excise tax on automobiles was repealed on June 21, 1961 and tax paid on automobiles in dealers' stocks on that day was refunded. In the fall of 1963 the accounting transactions of one dealer who had received a refund of tax amounting to \$16,700 figured rather prominently in a court case in which it was disclosed that he had been in the habit of overstating car inventories in order to deceive the car manufacturer who financed the inventories.

Payment of the refund claim by the Department was based solely on figures supplied by the manufacturer and certified by the car dealer in question.

Although the Department took no action at the time these disclosures became public knowledge, it did review the file at our request during the year and came to the conclusion that there is a possibility that fifteen vehicles on which excise tax of \$2,375 had been refunded were not actually in the inventory on June 21, 1961, having been disposed of prior to that date. The Department explained that it would now be extremely difficult to establish definitely what vehicles were actually on hand on June 21, 1961 because the

departmental officer who approved the claim is now deceased, the claimant's franchise agreement with the automobile manufacturer has been cancelled, the records of the claimant, now in bankruptcy, are not readily available and, furthermore, are not considered accurate. No attempt has been made to effect recovery.

101. *Charitable donations.* Section 27(1)(a) of the Income Tax Act, R.S., c.148, provides that a taxpayer may deduct from net income the aggregate of gifts to charitable organizations in Canada up to 10% of net income. In the taxation year 1963—the last year for which statistics are available—charitable donations claimed as deductions amounted to \$308,431,000 in the case of individuals and \$41,700,000 in the case of corporations.

The word “charitable” is not defined in the Act and the Department in administering this section relies on Common Law which recognizes “charity” as comprising four principal activities: the relief of poverty, the advancement of education, the advancement of religion, and other activities beneficial to the community not falling under any of the preceding heads.

Many charities are well known to the taxing authorities and receipts issued for donations are generally accepted without question when attached to a taxpayer's return in support of a deduction for a donation he has made to a charitable organization. There is no requirement that charitable organizations be registered with the Department but in practice provision is made for formal approval which an organization may seek if it so wishes. Such approval is, of course, a necessity in the case of organizations which are not known and whose receipts might not be accepted by the taxing authorities in the absence of prior approval. The Department maintains, for its own use, a list of approved charitable organizations which currently includes over 1,200 names.

A perusal of this list quickly gives the impression that all of the organizations exist for worthy purposes, but it is not so readily apparent that all are concerned with poverty, education, religion or purposes beneficial to the community. For obvious reasons assistance given personally by a taxpayer to a poor family for the education of one of its children cannot be recognized as charity for the purposes of the Income Tax Act. However, an equivalent amount given by the same individual to a professional association to which he may belong to be used to recognize scholastic achievement by a student of the association is regarded as a charitable donation.

Also included on the list are organizations which are set up in Canada for the collection of funds to be used for worthy purposes in other countries. It might be questionable whether these should be regarded as “charitable organizations in Canada” within the meaning of section 27(1)(a) of the Act.

Charitable organizations which are incorporated must file annual income tax returns including financial statements, but once any organization has been recognized the Department exercises no regulatory control, nor is there any other authority in Canada which exercises control such as requiring the filing of annual returns accompanied by financial statements giving a report of charitable activities. In the absence of such a control it is possible for organizations to change their character or even to cease serving any useful purposes, yet their receipts might continue to be accepted as evidence of genuine donations to bona fide charitable organizations.

Consideration should be given to the setting up of adequate controls over the many charitable organizations now recognized.

102. *Remission of income tax on per diem allowances.* Per diem allowances ranging from \$50 to \$60 were granted to each of the members of the Board of Trustees of the Maritime Transportation Unions. The income tax normally payable on these allowances was remitted by the Governor in Council under authority of section 22 of the Financial Administration Act.

Each of the departmental submissions to the Governor in Council and each of the remitting Orders in Council referred to the per diem allowances as remuneration and went on to state that any remuneration payable to the members of the Board of Trustees of the Maritime Transportation Unions would have been tax-exempt if the appointments had been made under the Inquiries Act, R.S., c.154. In actual fact, section 5 (1) (b) of the Income Tax Act grants to a person who was appointed or whose services were engaged pursuant to the Inquiries Act exemption from tax of "travelling or personal or living expense allowances" paid under authority of the Treasury Board. In other words, it is expense allowances paid to persons appointed under the Inquiries Act and not remuneration allowances to those persons which are exempt from income tax.

This mis-statement of fact in the submissions and the resulting Orders in Council in no way affects the validity of the remissions granted and the remissions themselves are regarded as being in order.

It is a matter of concern, however, when the Governor in Council is provided with incorrect information which may have had a bearing on the decision to grant the remissions requested by the Department of Labour. In the absence of amending Orders in Council which would indicate that the Governor in Council had been informed of the erroneous information provided, the matter is drawn to attention.

103. *Inadequate accounting and financial control procedures, Fort Smith, N.W.T.* The Department of Northern Affairs and National Resources has established headquarters for the administration of the Mackenzie District of the Northwest Territories at Fort Smith. The headquarters for one of the three regions into which the District has been divided for administrative purposes is located in the same community.

In 1964 we made a preliminary study of activities centered at Fort Smith to obtain first-hand information for the framing of a program of audit for the combined district and regional office, and to reach a decision regarding the extent to which the expansion of departmental activities in the North now required field audits in the area. An examination in June 1965 disclosed the following serious deficiencies in the accounting and financial control procedures:

1. Internal control over cash receipts was lacking in that one employee was permitted to receive and record receipts, maintain or have access to accounts receivable ledgers and to have custody of the pre-numbered forms used for billing purposes.
2. Departmental invoices were not subject to review and approval by unit heads before release. Collection and follow-up action respecting accounts receivable was inadequate. Numerous outstanding accounts dated back to 1961 and at March 31, 1965 accounts

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outstanding for more than one year totalled \$23,300, which was \$8,100 in excess of items in the same category at the preceding year-end. Credit for additional services had been extended to debtors with long overdue accounts.

3. The Fort Smith office performs accounting and collection services for the Department of National Health and Welfare. Unpaid invoices in respect of services performed for patients at a local clinic and at nursing stations at other points are turned over to the Department of Northern Affairs and National Resources for recording and collection action. Since no control account was being maintained over the accounts receivable ledger, individual ledger cards could be misplaced or lost without this becoming evident. Although the recording of receipts was up to date at the time of the audit, billings had not been posted since the end of April 1965. Even on this basis, a listing of the outstanding accounts totalled over \$25,000. It was evident that appropriate action was not being taken to effect collection of old accounts and comparatively few individuals to whom credit was extended for medical services were settling their accounts.
4. The Department has been authorized to sell electric power, produced from its own generating plants or from facilities operated by the Department of Transport, to private consumers in remote locations where alternative sources of supply are not available. Administration, meter readings, billings and collections for this service in areas other than Fort Smith have been largely delegated to area officers. In our opinion, centralized control over these matters is desirable and the necessary steps should be taken to effect this at the regional headquarters.
5. Billings and collections for sewer and water services at Fort Smith have been handled by the Department, although the municipality was expected to assume responsibility in the matter on July 1, 1965. Meter readings and billings were found to be considerably in arrears. In June 1965 private consumers had been billed for services only to February 28, 1965. Even with the arrears in billings, outstanding accounts amounted to more than \$17,000 on June 15th. Internal accounting control was inadequate in that there was no control account over the individual accounts and the employees concerned with billing and the handling of cash had access to these accounts. We were later informed that the municipality did take over the service on July 1, 1965 and that the outstanding accounts had been reduced to \$1,160.
6. Motor vehicle licence plates issued initially from Fort Smith are sold at a number of locations. No accounting of unsold plates on hand at the year-end is made to Fort Smith and we were informed that many are sold to collectors for a nominal amount after the expiry date. The lack of internal control does not provide assurance that all revenue from this source is brought to account.
7. Although instructions are that a departmental officer take a physical inventory of liquor at the Fort Smith store at the end of each month, our June examination showed that the latest such count had been made on March 31, 1965.
8. The settlement of outstanding accounts payable was considerably in arrears, with delays of several months being not uncommon.

On October 18, 1965 we were informed by the Department that a serious view had been taken of our report and that steps to meet the criticisms had already been initiated. The Department advised us that

the majority of the problems result from insufficient staff in Fort Smith. Many employees unfortunately have had to be hired on a casual basis and consequently our turnover has been quite high. For some months now we have been working to correct this situation through recruitment of senior financial officers.

Although operations at Fort Smith are unique in that both district and subordinate regional activities are centered at the one location, the conditions revealed by our examination indicate clearly that the audit coverage of northern points, which has been very limited, will have to be extended as soon as this can be arranged.

104. *Inadequate control of stores at northern locations.* In its report on "Northern Affairs", the Royal Commission on Government Organization pointed out that the relative isolation of the North made it essential that departmental operations be integrated in a number of matters, including supply and materials management.

One of the first areas to be considered for integrated operations was Frobisher Bay, N.W.T., where a committee, on which all government departments and agencies with interests in the area were represented, reviewed common services and recommended divisions of responsibility. One conclusion reached was that the Department of Northern Affairs and National Resources should take over the operation of a consolidated stores set-up to meet requirements for supplies. The planning in that regard initially contemplated the procedure becoming effective in November 1964, but although April 1965 was later regarded as a more practicable date, consolidation has not yet been possible. The primary reason for the situation is that preliminary surveys showed that the control and management of the Department's own stores was such that the value of the inventory could not readily be determined, and in this circumstance the Department was in no position to undertake the added responsibility of management of stores for other departments. Furthermore, an assessment of the situation made it apparent that management and control had been inadequate for several years.

Stockpiling of stores is necessary in the North for a number of reasons, including the short shipping season, transportation difficulties and climatic conditions. In 1960 the Department sought authority to operate a revolving fund for the purpose of acquiring and managing stores of its Northern Administration Branch. Vote 574 of Appropriation Act No. 6, 1960, provided this, with the amount to be charged to the fund at any time not to exceed \$500,000. Of this amount, \$300,000 was allocated for operations centered at Fort Smith and, effective April 1, 1962, \$200,000 for Frobisher Bay. Almost immediately it became apparent that the amount provided for Frobisher Bay was inadequate. The value of stores on hand (including a substantial quantity of obsolete and unusable items) which was to be a first charge against the revolving fund was in excess of the amount authorized, even after a decision was made not to bring certain materials within the fund. Nevertheless, action to increase the fund or at least to have the obsolete and unusable items deleted was not taken. Since the fund was not sufficient to finance operations, supplies were purchased and stockpiled from appropriations. In July 1964 it was stated that the stores operation at this locale was "on a more businesslike basis" and "well under control" and that an inventory taken a few months previously had produced a valuation of \$309,000.

However, when arrangements were being made to take over the stores of other departments at Frobisher Bay, it was found that control was still lacking. Not only were the officially recorded stores not capable of verification but considerable quantities of construction and other materials, which had come into the possession of the Department following the withdrawal of the American defence forces of the Strategic Air Command or

which had been abandoned by contractors, had not been taken on charge and their value was not known. Arrangements were made to have an officer of the Department of Defence Production visit Frobisher Bay in January 1965 to survey the situation and to make recommendations for proper stores handling. Acting on the resulting report, stores specialists were engaged to make a complete physical inventory, catalogue the stock, reconcile stock records and reorganize the stores layout. This undertaking is not expected to be completed until November 1965. The Management Analysis Division of the Civil Service Commission was also requested to study present procedures, design a stores system to meet the requirements of the area and prepare a procedure manual for the guidance of employees. The results of this study became available to the Department in August 1965 and implementation of recommendations is now under way.

Reference has been made above to the stores operation at Fort Smith. The examination in June 1965 referred to in paragraph 103 disclosed weaknesses in inventory control at this establishment also. The results of a physical inventory of stores undertaken by departmental personnel in October 1964 but not yet completed, made even the approximate accuracy of the amount of \$164,000 charged to the revolving fund extremely doubtful.

105. *Second class mail.* In its Fourth Report 1963 the Public Accounts Committee expressed the belief that early consideration should be given by Parliament to the alternatives of revising upward the rates of postage on Canadian publications or providing an annual appropriation in an amount sufficient to cover the loss to the Post Office Department from handling second class mail (Appendix 1, item 1). The Committee requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent Committees might give consideration to it.

The costs of handling the various classes of mail have in the past been estimated by the Department by means of a cost ascertainment procedure in which time studies were used. The last departmental time study was in 1961-62.

In 1964 the Department engaged a firm of consultants to examine its cost ascertainment procedures with a view to establishing accurate costs with respect to the various classes of mail. The procedures recommended by the consultants were put into effect only in January 1965 and no figures are available to indicate the loss in handling second class mail for the year 1964-65. The loss in 1963-64 had been estimated at \$35 million which included \$1.5 million attributable to a special second class rate on newspapers and magazines mailed by the public. This rate was discontinued effective April 1, 1964.

During the year second class revenues increased by \$250,000 to \$8,433,000. The Department attributes the increase in part to the increase in postage rates on third class matter which was effective April 1, 1964 and which induced a large increase in applications for second class privileges for publications previously mailed as third class matter. With effect from April 1, 1964, there was also an increase in the postage rate on publications sent to foreign countries other than the Americas.

106. *Second class mail—free mailing privileges.* Section 11 of the Post Office Act, R.S., c. 212, permits newspapers and periodicals that are published less frequently than daily but not less than once a month, to mail a maximum of 2,500 copies per issue free of postage, subject to the following conditions:

- (1) addressees must be bona fide subscribers or newsdealers;
- (2) addressees must reside or do business within a 40-mile radius of the office of publication;
- (3) the office of publication must be located in a city, town or village with a population of not more than 10,000 persons.

The 1961 census indicated that there were 598,000 people in the Province of New Brunswick and that the town of Campbellton had a population of 9,873. In 1963 the Dominion Bureau of Statistics estimated the Province of New Brunswick to have a population of 614,000 persons.

The Centennial Commission, which is authorized to make grants on a per capita basis to provinces for local projects of a lasting nature, accepted the published intercensal estimates of the Dominion Bureau of Statistics for the year ended December 31, 1963 which show the population for New Brunswick at 614,000. Accordingly the Province, using the 614,000 total, revised the population figures of the towns and cities, giving Campbellton a population of 10,130.

In administering section 11 of the Post Office Act, the Post Office Department, upon learning the basis upon which centennial grants were to be made, cancelled the free mailing privileges previously enjoyed by three newspapers in the area. However, the publishers protested, maintaining that the 1961 census figure of 9,873 should stand and the Department re-instated the free mailing privilege.

107. *City transportation services.* In an examination of payments by the Post Office Department for street letter box clearance in one large city, we observed certain factors of time, trips, etc., as set out in the contract specifications that did not correspond with the actual performance. It appeared that running time plus time allowances as scheduled in the contract and on which payment is based was substantially in excess of the actual hours worked. Our test, projected on an annual basis for that city, indicated that idle time totalled some 19,000 hours, costing an estimated \$68,000.

Time allowances are designed to compensate the contractor for unavoidable delays due to traffic congestion, adverse weather conditions, detours, etc., as well as minor extensions or changes in routes. The Department conceded there might be a tendency for such allowances to be extended beyond reasonable limits and undertook to have a check made of the various routes with a view to adjusting the schedules as required.

The Department has since informed us that this survey revealed certain anomalies in the service provided, in addition to inconsistencies in time allowances. The entire collection service in that city has been re-designed to eliminate these anomalies and to permit an integrated work flow. A saving of approximately \$38,000 per annum has resulted.

108. *Postage stamps destroyed.* During the year the Post Office Department purchased postage stamps to a total face value of \$109,470,000 at a cost of \$1,323,000. In the same period, stamps having a face value of \$5,272,000 and an estimated cost of \$64,000 were destroyed or held for destruction at the year-end because they were spoiled in handling, unsaleable or returned from postmasters in lots too small for economical re-issue.

Included among the stamps destroyed or held for destruction were approximately 53 million stamps, costing \$16,000, of a special 1964 Christmas issue of 412 million stamps

purchased at a cost of \$125,000. The Department over-estimated the demand for these stamps and was precluded from using the issue in another year because the stamps were dated "Christmas 1964".

109. *Write-off of obsolete stores.* Section 60(2) of the Financial Administration Act provides as follows:

Where a board of survey constituted under subsection (1) recommends the deletion from inventory of any obsolete or unserviceable stores or materials or any stores or materials lost or destroyed, the appropriate Minister with the approval of the Treasury Board, may direct the deletion of all or any part of such stores or materials from the inventory, but the value of stores or materials so deleted shall not be credited to a revolving fund except with the authority of Parliament.

The Treasury Board, under the provisions of this section, approved the deletion of stores which had cost \$19,667 from the inventory of the Post Office Department and approved the inclusion of an item in the Supplementary Estimates in order to reimburse the Post Office Revolving Fund for the cost of these stores items which had become obsolete in inventory.

The amount appeared in Supplementary Estimates (D), Vote 1d, 1964-65, under "Postal Services, \$328,700", as an allotment for "Mail Bags and Letter Carrier Satchels, \$19,700", rather than as a separate supplementary item in such a manner as to indicate that the amount was to recoup the Post Office Revolving Fund for losses due to obsolescence. The wording of this Estimates item does not convey to Parliament its real purpose.

110. *Charges for Post Office lock boxes and bag service.* Post Office patrons who receive incoming mail in lock boxes are charged an annual rental varying from \$2 to \$18 depending on the size of the box and on whether the patron lives outside or inside of the letter carrier area.

Some patrons who have a very large volume of incoming mail do not rent a lock box but are provided by the Post Office with what is known as "bag service" for which they are charged an amount of \$10 or \$18 per annum depending on whether they reside outside or inside of the letter carrier area.

There are other patrons with a heavy volume of incoming mail who rent a lock box (usually but not necessarily one of the largest) although the box cannot handle the mail volume so that bag service has to be provided. In some cases the box remains unused, all the mail being put up in bags for the patron. In such cases the lock box is generally retained because the patron wishes to have a post office box number as an address, but although he has the use of the box and is also receiving bag service, he pays only the annual lock box rental, no charge being made for the bag service.

We have pointed out to the Department that the provision of a lock box as well as bag service for the one annual fee not only provides the patron with a free service not available to other patrons, but may be tying up lock boxes required for other patrons.

The Department has advised us that the situation has been under study but a solution has not yet been found because of "the complexity of the problem and possible effect any change would have on our box assemblies and post offices".

111. *Post Office Savings Bank.* At March 31, 1965 the balance on deposit in approximately 300,000 accounts in the Post Office Savings Bank was \$23,255,000, including approximately 200,000 accounts with an aggregate balance of \$2,801,000 classified as dormant and unclaimed. In many of these latter accounts the balance of principal has remained unchanged for many years.

Section 52(4) of the Post Office Act, R.S., c. 212, provides that:

Interest on deposits in the Post Office Savings Bank shall be added to and become part of the principal as of the 31st day of March in each year.

However, in order to keep costs down, interest earned by these dormant and unclaimed accounts, which is a charge to annual expenditure, is not being credited to the individual accounts but is calculated on the balances of the control accounts only and credited to a relatively few interest accounts. Interest accumulated in this manner to March 31, 1965 totalled almost \$1 million and is increasing at the rate of \$69,000 annually.

The Department is now giving consideration to the manner in which the Post Office Act could be amended in order that it might deal with unclaimed balances in accounts of the Post Office Savings Bank in a manner similar to that in which unclaimed balances in chartered banks are handled.

112. *Construction of headquarters building, Department of National Health and Welfare.* The lowest tender received in 1961 by the Department of Public Works for the construction of a new headquarters building for the Department of National Health and Welfare was \$7,225,000. The Treasury Board considered this amount to be too high and instructed the Department of Public Works to reduce it by negotiation with the low bidder.

It was decided that a substantial reduction could be effected by a number of changes in the specifications and by relocating the departmental cafeteria in the basement instead of following the original design which proposed its construction as a separate adjacent building. A net reduction of \$512,000 for these changes was offered by the successful tenderer after adding \$26,000 for the work involved in installing the cafeteria in what was previously to have been an unfinished basement area. The alterations in the plans resulted in a negotiated contract price of \$6,713,000.

The Department of National Health and Welfare was not satisfied with the new basement plan and called for a number of alterations. The Department of Public Works also required some changes. When the contractor quoted a price of approximately \$260,000 for the work involved, the Department of National Health and Welfare was informed that the extra cost was unacceptable to the Treasury Board and that all changes would have to be kept within the limit of \$26,000 previously approved. This resulted in further plan changes.

The plan changes involved in the initial price reduction would have been made by the consulting architects without charge but subsequent changes were so numerous and extensive that they asked for and were paid \$56,825 as an additional fee for what was described as "abandoned work and re-design attributable to major changes".

Payments for the construction of the building to date have totalled \$7,264,000, consisting of \$6,865,000 paid to the contractor and \$399,000 to the consulting architects.

The increase in the construction cost over the price negotiated earlier is due to additional items of work, primarily in respect of the foundation and the podium area.

113. *Cost of construction of the National Gallery.* In May 1957 a contract was awarded by the Department of Public Works for the construction of a building in Ottawa for the National Gallery of Canada. The contract specified a fixed price of \$4,986,000 with delivery of the building in August 1959.

At the request of the Department of Public Works, this fixed price contract was amended by the Treasury Board six times. The building, which cost \$5,218,000, was finally accepted by the Department on February 3, 1960. The additional costs of \$232,000 were caused mainly by circumstances which had not been foreseen when the contract was entered into.

Site excavation work was delayed by the discovery of clay seams in the rock, which required further core drilling to determine the adequacy of the foundation design. A further delay occurred while underpinning was placed to support electrical ducts located beneath an adjacent sidewalk. In addition, National Gallery officials requested that changes be made in the partitioning and luminous ceilings, etc. These changes necessarily interrupted the contractor's timetable and added materially to the final cost.

Following delivery of the building, the contractor submitted a delay claim covering his site administration costs, loss of productive equipment time and increased heating and other costs. The claim was paid in the amount of \$35,632 in August 1964.

114. *Cost of revised and abandoned plans for buildings in Ottawa.* In March 1961 two firms of consulting architects were engaged to prepare plans and specifications and to supervise construction of a headquarters administration building in the Confederation Heights area for the Department of Northern Affairs and National Resources, together with an adjoining headquarters building for the Department of Forestry. The complex was also to include accommodation for the Canadian Government Travel Bureau and a unit of the Department of Public Printing and Stationery. The estimated cost of construction was \$9,987,000 with architects' fees amounting to \$484,000.

The architects completed the plans and specifications for the project by early 1963. Subsequently it was decided not to locate the Department of Forestry and the Canadian Government Travel Bureau in the complex. The architects thereupon redesigned the plans for the remaining known occupants. It later developed that the space planned for the unit of the Department of Public Printing and Stationery was not required.

In November 1963 strenuous objection to the Confederation Heights location was lodged by the Minister of Northern Affairs and National Resources on the grounds that the Department should be located in the central part of the city "with ready access to the House of Commons". This objection led to cancellation of the proposal to locate the Department at Confederation Heights and it has since been accommodated in a new downtown building, 219,000 square feet of space having been leased for a period of ten years at an annual rental of \$688,000. The Department had previously occupied 120,000 square feet in a number of downtown buildings with an annual rental value of approximately \$351,000.

In May 1964 the Treasury Board approved in principle modification of the Confederation Heights building plans to adapt them for an administration building for the Taxation Division of the Department of National Revenue. In order to salvage as much as possible of the plans already completed, the Department of Public Works proposes to retain the building in its original design except that it will be reduced from seven to five storeys with the cost of construction estimated at \$6 million. It also proposes to construct a building in the same area to house a data computer centre for the Department of National Revenue and a cafeteria building to be linked to the administration building, the estimated cost of these being placed at \$9 million.

As a result of this re-planning of the whole project, it is estimated that the fees which will finally be paid to the two firms of architects will approximate \$936,000, including an expense of about \$220,000 resulting from the revisions to and the abandonment of plans in respect of the original concept.

115. *Cost of abandoned plans for headquarters building, Department of Transport.* In 1957 the Department of Transport requested a new headquarters building in Ottawa and in 1960 the Department of Public Works agreed that provision should be made for a suitable building in the Confederation Heights area. Preliminary plans were for a building expected in October 1961 to cost between \$10 million and \$12 million.

Two firms of consulting architects were appointed in November 1961 to prepare plans and specifications and to supervise construction. However, following consideration of a master plan prepared for the National Capital Commission for the future development of federally-owned property in the Confederation Square area, the decision was taken in September 1963 that the proposed Department of Transport building should be located in this area.

It was decided in June 1964 to discontinue the services of the consulting architects and the contract was cancelled, with the consultants, who had done considerable work on the plans for the proposed building, being paid \$80,580 for their services.

116. *Cost of modifying heating plant in new building, Toronto.* The Mackenzie Building was built to house government departments in Toronto and was accepted from the contractors in stages between November 1959 and April 1960. Its final cost was \$13,087,000.

At the request of the Department of Public Works, the consulting architects provided for the use of coal in heating and specified underfeed ram type stokers. Over the period of a year during construction the contractor operated the boiler plant for temporary heating using the type of coal recommended by the stoker manufacturer.

Difficulties in operating the heating plant were encountered by the Department shortly after it took delivery of the building. The architects denied responsibility, pointing out that they had advised the Department of the importance of purchasing coal based on the recommendations of the manufacturer of the installed equipment but that their advice had not been taken.

In 1964 the Department converted the heating plant from coal to natural gas, with oil as a stand-by, at a cost of \$27,389.

117. *Relationship of site cost to building cost, Woodstock, Ont.* In considering proposals for the construction of federal buildings, the Treasury Board follows a general rule that costs of the site should range between 15% and 25% of building costs. If a greater percentage cost appears, the department concerned is required to explain in detail the special circumstances necessitating the higher cost.

In the case of a new federal building in Woodstock, the site cost exceeded 52% of the building cost when the proposals of the Department of Public Works were set aside in favour of those made by municipal officials and others.

In September 1960 the Department received the concurrence of the Treasury Board's Advisory Committee on Accommodation Standards to a proposal for erection of a federal building to house government departments at Woodstock at an estimated cost of \$425,000. The site approved by the Committee was a Crown-owned armoury property and an adjoining property which it was expected could be acquired for approximately \$60,000. Its location, less than two blocks from the main street and adjacent to the provincial buildings, was reported to be acceptable to the municipality.

Shortly after taking this decision the Department was asked by the Mayor and others to consider another site which it was claimed would prove more beneficial to the municipality in its overall planning and would help to rehabilitate a depressed section of the city. While the location of this site compared favourably with the original one, the Department viewed with concern the increased cost of acquiring it.

However, in February 1962 it decided to proceed with the site favoured by the local officials and expropriated six properties required for siting and parking facilities.

During 1962 and 1963 the Department submitted proposals for settlements to the Treasury Board for approval. In September 1962 the Board stated that although the land costs appeared unnecessarily high, "abandonment of the properties would result in very serious claims being submitted against the Crown which in turn would tend to outweigh any savings to be realized by reverting to the Armoury or some other less costly site".

The total cost of the site including payments to the former owners, to certain tenants in respect of leasehold interests, legal services, demolition of the buildings, etc., amounted to \$283,000. The final cost of the building erected on the site, with associated costs including consultants' fees, will approximate \$537,000.

118. *Cost of little-used railway spur line, Pointe-au-Père, Que.* In 1958 the Department of Public Works decided to proceed with the construction of a deep water winter port at Pointe-au-Père costing approximately \$3 million. Included in this development was to be a spur line, $3\frac{1}{2}$ miles long, from the Canadian National Railways main line to the proposed port. The Department estimated the cost of such a spur line at \$600,000 and invited the Railways to give favourable consideration to this investment as their share of the overall project.

The Railways declined, stating that their assessment of the situation was that the possible new rail traffic which might be expected to result from the building of the line would not justify their assuming "all or part of the capital cost and/or the related annual maintenance cost".

In 1960 the Department obtained authority from the Treasury Board to enter into a standard industrial siding agreement with the Railways which provided that the Department would accept financial responsibility for the acquisition of the site, the construction of the right of way, maintenance and snow removal. The Railways agreed to install the rails and associated equipment for which an annual rental would be required.

Construction of the spur line was completed in 1961 at a cost of \$401,000 to the Department, whereupon it transferred the facilities to the Department of Transport for control and management, with the latter Department becoming responsible for the payment of the annual rental of \$4,169 for the trackage. However, no annual rental has been paid yet.

The Department of Transport was concerned that responsibility for this spur line should be thrust upon it in this way and asked for a clarification of policy. As a result, the Treasury Board in 1963 approved of a new policy to be followed in future with respect to the installation of railway tracks on government wharves. This policy provides that tracks at new wharves are to be installed only at the request and expense of a railway, with the railway determining whether the traffic involved would justify such consideration.

The wisdom of this policy is illustrated by the use made of the spur line since its construction at Pointe-au-Père. Only four carloads were handled on the spur in 1962 and none in 1963. The primary use of the track has evidently been to bring railway cars to the wharf in winter to serve as a windbreak for ferry traffic.

119. *Failure to provide for subsidy review.* In October 1962 a company which proposed to construct a new floating dry dock at Montreal approached the Department of Public Works to obtain financial assistance under the Dry Docks Subsidies Act, R.S., c. 91. The Act provides that the Governor in Council may authorize the payment of a subsidy in respect of dry docks in the category contemplated, not exceeding $4\frac{1}{2}\%$ per annum of the cost of the work, to a maximum of \$4 million, during a period not in excess of 35 years. On this basis the Department sought approval in principle from the Treasury Board to enter into an agreement to pay a subsidy of \$180,000 per annum if the private capital outlay was at least \$4 million.

The Board concurred with the Department's proposal on condition that the agreement provide that the subsidy be the subject of review at reasonable intervals, three to five years being mentioned. If these periodic reviews established that the net operating revenue, together with the subsidy, had resulted in a return in excess of 12% on the private capital investment, provision was to be made for a downward adjustment of the subsidy for the ensuing period.

The proposed dry dock could not qualify as a floating dry dock of the first class, as defined by the Dry Docks Subsidies Act, because it would not be capable of receiving and repairing therein "with ease and safety the largest ships or vessels of the British Navy existing at the time the contract is entered into". This impediment was, however, removed by Public Works Vote 132e, Appropriation Act No. 4, 1964, assented to on April 13, 1964, the text of which was:

Payment to Canadian Vickers Limited of a subsidy in respect of a dry dock in Montreal, Quebec, in accordance with the Dry Docks Subsidies Act, Chapter 91, R.S., as though it were a dry dock of the first class described by section 7(a) of the Act. \$1.

On April 28, 1964 the Department of Public Works reported to the Governor in Council that the Canadian Maritime Commission had been authorized to pay a subsidy of \$2,198,000 towards the cost of the dock under the Ship Construction Assistance Regulations and that this, when applied in reduction of the cost of the dry dock estimated by the company at \$6,299,000, would reduce the company's investment to \$4,101,000. Accordingly authority was sought and obtained to enter into an agreement for the payment of an operating subsidy under the Dry Docks Subsidies Act of \$180,000 per annum for a period of 35 years.

The Department, however, failed to advise the Governor in Council of the condition imposed by the Treasury Board in 1962 whereby the subsidy should be reviewed at periodic intervals to determine whether net operating revenue, together with the subsidy, was resulting in a return in excess of 12% on the company's own investment, and this proviso was not included in the agreement signed by the Department with the company in June 1964.

The Department was asked for an explanation and we were informed that the Board's requirement had been inadvertently overlooked. In November 1965 the Department informed the company that, in the circumstances, there was no alternative but to amend the agreement by the inclusion of the necessary proviso.

120. *Cost of activating water supply system, Churchill, Man.* In 1960 a contract was placed by the Department of Public Works for the construction of an access road, an intake structure and supply lines to provide a water supply system at Churchill, which was completed in 1961 at a cost of \$932,000.

The construction of an intake pumphouse had been planned so that the supply lines could be activated shortly after their completion without lying dormant during the winter season. However, the contract for the pumphouse was not awarded until April 1962. It was scheduled for completion in October 1962 which date was eventually extended to November 1963 because of difficult excavation problems. It was completed by August 1963 at a cost of \$257,000.

The delay in proceeding with the construction of the pumphouse meant that the water supply system could not be placed in operation before the 1961 freeze-up. The lines were de-watered to prevent frost damage and a resident engineer from the firm of consultants retained for the project was authorized to remain at the site during the winter to ensure that air pressure was maintained to guard against water infiltration. Notwithstanding this precaution, a partial blockage caused by ice was encountered when the lines were tested in October 1962. Although the pumphouse contractor made preliminary efforts to clear the lines, the situation became more critical and in December 1962 the Department instructed the consulting engineers to take emergency action. It was not until the following November that all lines were activated.

In addition to their charges for consulting services in the construction of the water supply system, the consulting engineers claimed an additional \$141,000 for their services

in freeing the lines and activating the system, and these claims for the most part were paid prior to March 31, 1965. The Department has taken the position that insufficient care was taken by the consultants to ensure that the lines remained water-free during the freezing period. The consulting engineers maintain that the basic cause of the mishap was that the supply lines were built considerably in advance of the pumphouse.

The consulting engineers have assumed \$10,000 of the cost without prejudice to their position.

121. *Additional costs due to inaccurate specifications.* In May 1962 the Department of Public Works awarded a contract in the amount of \$118,000 for dredging in the harbour at Sault Ste. Marie, Ont.

The pre-dredging boring program carried out by departmental engineers had shown no bedrock above grade, although it was stated that some occurred between grade and sub-grade. The contractor reported that he had encountered either very large boulders or extremely hard shelves of flat sandstone and as a consequence was obtaining little or no production and suffering more than average wear and tear on his equipment. Shortly afterwards the departmental district engineer informed the Department that contrary to the information provided by the pre-dredging borings, sweeping, sounding and inspection by divers had revealed substantial areas of bedrock above grade.

The contractor was paid an additional \$28,000 to cover loss of time and the additional wear and tear to which his equipment had been exposed while working in the bedrock area.

122. *Continuing federal assistance to intra-provincial ferry services.* In our 1963 Report attention was drawn to the continuing federal subsidization of ferry landing facilities for provincial governments despite the general policy of the Department of Public Works and the Treasury Board over many years to regard such facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned.

The cases described at that time dealt with major wharf improvements in the lower St. Lawrence area, namely at Les Eboulements for the ferry service to Iles aux Coudres and the construction of terminal facilities at Matane for the ferry service to Godbout. In the latter case the Treasury Board withheld its approval of the contract because it was felt exception should not be made to the general policy regarding facilities for intra-provincial ferry operations. Eventually, however, "since some commitment had been given to the private interests, on which basis they undertook substantial commitments related to the acquisition of a vessel and the construction of the Godbout terminal", the Board reluctantly approved proceeding with the Matane project which was completed at a cost of \$172,000.

Construction of the Matane terminal and dredging at Godbout were undertaken at that time on the understanding that the ferry operator would construct the Godbout terminal and acquire and operate the ferry without further federal assistance. Notwithstanding this, Executive authority was granted in August 1963 for entry into a three-year subsidy agreement.

In 1963 the Department of Public Works was requested by the private owners to purchase the Godbout terminal on the grounds that the facilities at both ends of other ferry services in the lower St. Lawrence River area had been provided at federal expense. Specific provision was made for the purchase in Vote 30 of the Department's 1964-65 Main Estimates and the purchase was approved by the Treasury Board in July 1964 at a cost of \$268,000.

This acquisition has now brought to six the number of locations where the federal Government has provided terminals at both ends of cross-river ferry services in the lower St. Lawrence River. The total expenditure over the years for these terminals, which in some cases form part of shipping wharves, had exceeded \$7 million at March 31, 1965.

123. *Contribution due for ice control structure, Montreal.* Ice jams have always been a serious problem in the St. Lawrence River between Lake St. Peter and the Montreal harbour. It was foreseen that creation of the site for Expo '67 in this area would intensify this problem. Since icebreaking capacity sufficient to guarantee an open river throughout the winter could not be assured, an interdepartmental committee decided in 1963 that an additional safeguard should be provided in the form of an ice control structure to provide protection to the Exhibition site and to assist in controlling the ice conditions in the area. It was announced early in 1964 that the estimated cost of the structure would be \$12.5 million. It is now expected to cost approximately \$15.5 million.

Following a meeting held with the City of Montreal in July 1963, a document was signed by the three federal Ministers concerned and the Mayor of Montreal, which among other things recorded the City's agreement to make a contribution of \$2.5 million toward the cost of the project.

It was May 1964 before legal officers of the Department of Public Works and the City of Montreal met to work out the details of an agreement to provide for this contribution by the City. The departmental legal officers, however, expressed doubts as to the legal capacity of the City to enter into the project without provincial legislation. As a consequence it was not until June 1965 that an opinion was obtained to the effect that the City would be so empowered, subject to the passing of an enabling by-law by the City Council.

The agreement has not yet been signed. Meanwhile, construction has proceeded and the project is due for completion by July 1966. Federal government progress payments to the contractors and engineers up to March 31, 1965 totalled \$5,983,000 and have been advanced without any contribution so far by the City of Montreal under its 1963 undertaking.

The Department advised us in November 1965 that the resolution of the problem is imminent.

124. *Funds not accounted for by former officers.* It will be noted from paragraph 2 of this Report that section 70(1)(e) of the Financial Administration Act requires the Auditor General to call the attention of the House to every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.

Details of all losses incurred by reason of defalcations or other fraudulent acts or omissions of a public officer are listed annually in a statement of losses in the Public Accounts prepared pursuant to section 98 of the Financial Administration Act. The Audit Office checks this statement of losses to ensure that all losses observed during the year are included therein and has followed the practice of calling the attention of the House only to individual deficiencies or losses when the circumstances appear to warrant this.

The statement of losses in the Public Accounts for 1963-64 listed two losses, totalling \$912 and \$470 respectively, resulting from "misapplications of, or omission to account properly for, public funds". These losses were established by the Royal Canadian Mounted Police as having been caused by the failure of two of its officers to properly account for public moneys in their charge.

In December 1964 the two officers responsible for these deficiencies were compulsorily retired on pension "to promote efficiency", the pension in one case being reduced, under a provision of the Royal Canadian Mounted Police Pension Continuation Act, to relate to the period of satisfactory service prior to the time of misconduct.

In January 1965 the R.C.M.P. sought to collect the amounts of the two losses by deduction from the pensions of the officers involved pursuant to section 95(1) of the Financial Administration Act which reads as follows:

Where, in the opinion of the Minister of Justice, any person is indebted to Her Majesty in right of Canada in any specific sum of money, the Treasury Board may authorize the Minister of Finance to retain by way of deduction or set-off the amount of any such indebtedness out of any sum of money that may be due or payable by Her Majesty in right of Canada to such person.

In accordance with this provision, the Department of Justice was asked to consider a reference to the Treasury Board in order that the losses might be discharged in the manner sought by the Force. After the Department had examined the material assembled by the Force in the course of its investigation, they advised that the material did not establish that the two former officers "are indebted to Her Majesty in right of Canada within the meaning of section 95(1) of the Financial Administration Act and that, in any event, there is no specific sum within the meaning of that section".

As a consequence of this decision, no recovery of the losses will be made from the officers' pensions.

125. *Excess cost of Seaway property.* In 1955 the Department of Transport expropriated 52 acres of land in the Township of Cornwall, Ontario, for the purpose of a future all-Canadian seaway. One of the properties had frontage on the Cornwall Canal and the former owner of the property had a licence from the Department to use canal lands to unload and store coal. During negotiations to effect settlement for the property the former owner demanded either special compensation for the benefit he enjoyed from the use of canal lands or a 20-year lease without cancellation clause. Consequently, the Department decided that the property would be acquired only when it was actually needed for canal purposes and it abandoned the expropriation in 1956.

Although the property was then surrounded by Crown-owned lands and it was evident that it would have to be re-expropriated and compensation paid to the owner for improvements and loss of business, the owner proceeded to construct a 96,000-barrel fuel oil storage tank in 1956 and, without obtaining an easement, installed an oil pipeline across the Crown-owned canal lands to a dock on the canal. For several years afterwards the owner tried to sell the property to the Department of Transport and later to The St. Lawrence Seaway Authority. In 1961 the owner submitted an application for a lease in which an offer was made to sell the property to the Authority for \$280,000 and to lease it back from the Authority at an annual rental of \$16,000 for a period of fifteen years, subject to cancellation at the option of either party on six months notice. The property was then purchased on this basis with the approval of the Governor in Council on April 30, 1964 for \$282,000, including \$132,000 for the oil storage tank. Indications are that the anticipated rental income over fifteen years was a consideration in the decision to purchase the property at the price offered. On May 1st the vendor signed a lease for a parcel of this land and another company in which the former owner had an interest signed a lease for a second parcel containing the storage tank, together with a right-of-way for a pipeline extending across the first parcel. On May 5th, or four days later, the former owner gave six months notice of cancellation of the lease on the first parcel.

As a result, the Authority will not receive approximately \$90,000 rental income which it had expected to receive under the lease on the first parcel. Furthermore, it has paid \$132,000 for an oil storage tank which was not in existence at the time of the original expropriation.

126. *Deficits on inspection services.* The Standards Branch of the Department of Trade and Commerce is responsible for the administration of the Gas Inspection Act, R.S., c. 129, the Electricity Inspection Act, R.S., c. 94, and the Weights and Measures Act, R.S., c. 292. These statutes regulate the sale and use of measuring devices required for the distribution of gas and electricity and for general weight, volume and length determination. The inspection in each service is two-fold: first, approval of meters and devices before sale and installation, and second, in-use inspection.

Our examination of the Branch records included an appraisal of the internal controls and procedures in revenue collection as well as a comprehensive analysis of revenues in relation to costs incurred. In our opinion the revenue earned from inspections is subject to adequate continuous internal check and accountability but there is an increasing disparity between the revenues and costs incurred.

The Gas Inspection Act and the Electricity Inspection Act provide that:

such fees shall be regulated so that they will, as nearly as may be, meet the cost of carrying this Act into effect.

The Department interprets costs to include only direct costs of salaries and expenses of district offices. This excludes the share of the cost of the laboratory, which is involved in type approval of meters and other related inspection work, the expenses of Branch administration and the cost of services provided by other departments.

By comparing only direct costs with revenue, the service gave an appearance of being self-sustaining up to and including 1957-58. Since that time, direct costs have exceeded revenues by a low of \$47,000 in 1958-59 to a high of \$218,000 in 1964-65. Indirect costs were estimated to be \$475,000 in 1964-65 so there was a deficit of approximately \$700,000 in the year.

Fees for testing gas and electrical devices remain basically the same as in 1911. As new devices are introduced the new fees assessable are added to the rate schedule, the last such addition being for new electric power meters introduced in 1951. Consideration should be given to a re-assessment of the rate structure in order that the costs of providing this service may be recovered as required by the relevant Acts.

The Weights and Measures Act provides that:

The Governor in Council . . . may make regulations respecting the fees to be paid to inspectors for inspecting and verifying weights, measures, weighing machines and measuring machines or for weighing or measuring goods under this Act . . .

While the Act does not explicitly require revenue from fees to match the cost of the inspection services, it is our view that it should do so.

Each year from 1942-43 to 1964-65, direct costs have exceeded revenues from a low of \$4,000 in 1946-47 to a high of \$413,000 in 1964-65 despite the fact that fees were increased 25% on January 1, 1959. Indirect costs were estimated to be \$578,000 for 1964-65 so that the actual deficit for the year was approximately \$1 million.

Section 30 of the Act further provides:

. . . all weights, measures, weighing machines and measuring machines authorized by or under this Act for use in trade shall be inspected, verified and stamped at least once every year.

However, only 82% of the devices covered by the Act were tested during the year ended March 31, 1964 because of insufficient staff and widely scattered locations.

Consideration should be given to a complete re-assessment of the rate structure of the weights and measures inspection service in order to recover, to the extent practicable, the total costs of the service.

127. *Claims resulting from completion of air terminal building ahead of schedule.* Unusual circumstances were associated with a negotiated settlement for damages claimed against the Department of Transport during the year under review.

Prior to 1960 it became apparent to the Department that the new airport facilities at Edmonton would be completed several years in advance of the availability of a new permanent air terminal building. The erection of a temporary structure for the purpose was not proceeded with when it became known that a company which was planning to construct a major hangar at the new airport would make interior alterations which would enable the building to be used as a temporary terminal. In 1960 the Department entered into a lease for space in the hangar and in so doing became obligated "to use and in fact to occupy the demised premises and maintain the same as the administrative centre and terminal for the said airport for the duration of the term hereby created", which was for the period November 14, 1960 to September 30, 1964.

A number of airlines, caterers, taxi companies, etc., which in other circumstances would have rented space in a Crown-owned terminal building, also entered into lease agreements which they made directly with the owner of the hangar. In each case these individual lease agreements provided that the term would not extend beyond the date on which a permanent terminal building was occupied by the Department of Transport.

The new terminal was unexpectedly completed and ready for occupancy by December 1963. The Department of Transport and all of the other tenants terminated their leases and moved to the new premises with the result that the owner of the hangar lodged the following claims against the Department:

1. Claim for rental due by the Department for the period December 1, 1963 to September 30, 1964. This amounted to \$60,000. The claim was not disputed by the Department which had not foreseen the possibility that the new terminal would be ready prior to September 30, 1964. As it had obligated itself in the lease to pay rental until that date, the claim was paid in full.
2. Claim for damages resulting from loss of revenue due to the terminated leases of the airlines, caterers, taxi companies, etc., who also moved to the new terminal when it was ready for occupancy. The net amount of this claim, based on the total rentals of these tenants for the period December 3, 1963 to September 30, 1964, totalled \$80,000. Negotiations with the owner of the hangar by the Department of Justice resulted in a settlement of \$62,000 which was paid by the Department during the year.

128. *Cost of re-roofing air terminal building, Gander, Nfld.* The roof of the new air terminal building under construction at Gander for the Department of Transport was completed in 1957. The company which supplied the roofing material provided a bond under which it guaranteed to maintain the roofing membrane over the insulation for a period of twenty years at its own expense, excepting repairs required for any cause other than ordinary wear and tear by the elements.

In 1962 it became apparent that the roof was leaking and the company was requested to make repairs in accordance with the terms of the bond. It successfully disclaimed responsibility because the damage had resulted from the use of the roof as a storage area and a right of way by personnel of both the Department and the building contractor and could not be attributed to ordinary wear and tear by the elements. In 1963 conditions were such that it was necessary to enter into a contract for the re-roofing of the building at a price of \$77,000, none of which can be recovered.

129. *Cost of salvaging sunken vessel.* On March 5, 1964 a barge in tow with a cargo of oil sank in over 200 feet of water off Pasley Island in Howe Sound, B.C. Leaking oil fouled the beaches in the area. After the charterer had endeavoured to contain the pollution and clear the surface of the sea, he notified the Department of Transport that he was abandoning the vessel because the risk of rupturing the hull during any attempt at salvage and the cost of salvage were too great to contemplate.

The oil-laden barge remained a serious threat to water-fowl, marine life and coastal property and its removal was regarded as essential by the Department. As the wreck was not a menace to navigation, there was no legislation under which the private interests

involved could be held responsible for its removal or for costs if removal were undertaken by the Crown. Accordingly, the Department engaged salvage experts to investigate and report on the best means of dealing with the sunken barge.

Salvage operations commenced in June 1964 under a "no cure, no pay" contract. After the contractor's costs had exceeded the contract price, with little progress having been made, he indicated that he wished to withdraw from the undertaking and minimize his losses. This led to Treasury Board authority to negotiate with the same contractor to proceed on an incurred cost basis.

In October 1964 the barge was finally raised and removed to Vancouver, where it was sold for \$12,752 by Crown Assets Disposal Corporation. The remaining oil was found to have been so badly contaminated by sea water that it was valueless. Salvage costs paid to the end of the year amounted to \$265,000. The total expense of the operation is expected to be at least \$430,000.

We understand that consideration is being given to recommending legislation to place financial responsibility on the owners for the removal of a wreck or its cargo, in circumstances such as the above.

130. *Cost of abandoned design plans for ferry vessel.* In February 1964 the Department of Transport retained a firm of naval architects to prepare plans and specifications for an ice-strengthened railway car ferry to operate between North Sydney, N.S., and Port aux Basques, Nfld. A fixed fee of \$110,000 was agreed upon and the architects submitted a preliminary general arrangement plan and preliminary stability particulars.

Shortly after this date the Department informed the architects that the Canadian National Railways, which would be operating the vessel and had been consulted before the decision for an ice-strengthened ferry rather than one with full ice-breaking capacity had been made, were "quite emphatic that the vessel be designed for ice-breaking service and consequently the power will have to be revised to give an 18-knot service speed with diesel electric propulsion and ice-breaking qualities and scantlings".

After the architects had notified the Department that they were making revisions to meet the Railways' requirements, they were directed to suspend work while the issues involved were reconsidered. In April 1964 the Department decided that as the difference in the cost of building a full icebreaker as distinct from an ice-strengthened vessel would be very great, its original decision should be confirmed. The architects were then instructed to proceed with the original proposal.

The architects requested a revision of the fee that had been agreed upon in February 1964 which was then re-set and agreed to at \$130,000, or \$20,000 more than the original fee.

131. *Purchase and conversion of ferry vessel.* On May 19, 1964 the Department of Transport recommended to the Treasury Board that approval be given for the immediate purchase of a ferry for the carriage of freight between North Sydney, N.S., and Port aux Basques, Nfld. The Department stated that, if an offer to purchase were made before May 25th, the vessel could be acquired at a very reasonable cost.

The vessel, a 432-foot railroad car ferry, built in 1951 by a Canadian shipyard for the Miami-Havana service, had been on the market for some time and, since 1961, a firm of ship brokers in New York had made four separate attempts to interest the Department of Transport in acquiring the vessel. No action was taken, however, because prior to 1964 departmental policy had been to acquire ships only by construction within Canada. In 1964 the Department decided that an urgent situation which had developed with regard to the movement of freight between North Sydney and Port aux Basques warranted a change of policy which would recognize that emergency circumstances might justify the acquisition of a vessel outside of Canada.

The purchase price was \$1,513,000 "free alongside" the port of Sorel and the Department advised the Treasury Board that it estimated that repairs and conversion would cost \$750,000, making a total outlay of \$2,263,000 to place the vessel in service. The Treasury Board approved the purchase on this basis on May 21, 1964.

Departmental records indicate that a Sorel shipyard had obtained an option on May 8, 1964 to purchase this vessel at Jacksonville, Florida, from its United States owners for a price of U.S. \$1,200,000. The option, good until May 25th, was duly exercised and the vessel was then sold to the Department of Transport on May 26, 1964 for \$1,513,000, pursuant to the authority given by the Treasury Board.

On July 6, 1964 the Department requested authority to enter into a further contract with the Sorel shipyard for conversion and refit of the vessel. It was estimated that this work would exceed the \$750,000 figure given to the Treasury Board on May 19th, the submission stating that the costs would total \$755,000, plus \$481,000 as a contingency to cover extra work arising from the opening up and modifications called for by the Canadian National Railways, the intended operators of the vessel. It was not proposed to invite competitive tenders because of the time factor which necessitated placing the vessel into service as quickly as possible. The Treasury Board replied on July 29th that it would be prepared to authorize entry into a contract on a price to be negotiated basis on the understanding that a realistic target incentive contract would be submitted to the Board for approval after the vessel was opened up and specifications had been prepared.

It then developed that the work required exceeded all previous estimates and it was October 1964 before the Department negotiated a contract with the shipyard on the basis contemplated by the Treasury Board, setting the estimated conversion cost at \$1,844,000 with an incentive clause covering the division of savings on the target price.

Costs incurred under this contract for the conversion and refit of the vessel, which was accepted by the Department on May 1, 1965, amounted to \$2,447,000.

132. *Cost of faulty planning in ferry design.* In September 1963 the Department of Transport entered into a contract with a firm of naval architects for the preparation of plans and specifications for an ice-breaking railway and automobile ferry for operation in the Northumberland Strait and Newfoundland service at a fixed fee of \$156,000.

Six months later it became evident that allowance would have to be made for rail car weights considerably in excess of those contemplated in the original planning if the vessel was to be properly stabilized. When this decision was communicated to them, the

architects placed a value of \$102,000 on the work they had already done. They estimated that they would be able to use work to the value of \$47,000 in the revised planning and that the balance of \$55,000 represented the cost of the planning work to be abandoned. They were reimbursed in full by the Department.

In considering the Department's report on the circumstances of this case, the Treasury Board pointed out that the need for the design changes might have been avoided had departmental engineers taken the precaution to verify their information regarding freight car weights with the Canadian National Railways before commencing the basic design. The Board pointed out that it would seem improbable that the planning and implementation of modifications to the design and construction of the freight cars took place entirely between August 1963, when the basic plans for the new ferry were developed for the Department, and February 1964 when the new weight data was provided to the Department by the C.N.R.

The Treasury Board directed that procedures be developed for the verification of basic data to avoid similar situations in future.

133. *Cost of changing vessel design.* In May 1963 the Department of Transport entered into a contract at a fixed fee of \$86,000 with a firm of naval architects for the preparation and supply of plans and specifications for the construction of an icebreaker supply and buoy vessel, estimated to cost \$8,800,000, for operation in the Gulf of St. Lawrence.

Following submission of preliminary drawings by the architects, the Department requested that the accommodation requirements be increased from 71 to 91 as the result of the development of a new rating structure for vessels, leading to a revised crew complement. An additional factor was that experience in the north, where it was decided that this ship would have to be used during the summer, was increasingly pointing to the need for extra berth capacity in connection with the type of work involved in northern operations.

In September 1963 the architects advised that the vessel would have to be increased in length to provide for these and other lesser changes and that "all the work we have executed since February becomes null and void and we request your concurrence that a fresh start of the design is warranted".

This concurrence was given in July 1964 and an additional payment of \$20,000 was made to the architects.

Entry into a contract for the building of the ship was approved by the Treasury Board in September 1965.

134. *Cost of altering vessel design plans.* In May 1963 a firm of naval architects was retained by the Department of Transport at a fixed fee of \$42,000 to prepare plans and specifications for the construction of an icebreaker supply and buoy vessel for service on the Great Lakes.

In September the architects delivered their preliminary plans and specifications prepared in accordance with departmental requirements and guidance plans supplied. In November the Department advised the architects that the design was to be modified for service in the St. Lawrence River and the Gulf of St. Lawrence and also to provide Arctic supply capabilities.

In August 1964, after the architects had completed their engagement, they were paid \$15,000, additional to the fixed fee of \$42,000, for the extra work in preparing the new design.

The award of a contract for construction of the vessel at a price of \$5,267,000 was announced in April 1965.

135. *Cost of "dead-freight"*. The Department of Transport conducts an annual Arctic re-supply operation which includes the making of arrangements for transportation, stevedoring and other shipping services for other government departments and agencies on a recoverable basis. In April 1964 the Department called for tenders for the carriage of specified tonnages of cargo from Montreal to northern ports with the proposed loading dates scheduled for July 1964. The offer that was accepted quoted rates based upon "the minimum figures as shown in the request for tenders".

When the goods were loaded at the scheduled sailing time in Montreal, it was apparent that the total cargo was about 1,115 tons, or 21.5% less than what had been originally contemplated, of which 990 tons represented a short-shipment by the Department of Northern Affairs and National Resources. The total shortage represented a "dead-freight" charge of \$67,000, a figure which was ultimately reduced to \$44,000 through concessions made by the shipping company. Of this latter amount, \$33,000 was charged to a Department of Transport appropriation in the current year and the balance to the following year.

136. *Subsidizing of intra-provincial ferry service*. Since 1906 the operation of a ferry service between Pelee Island and Ontario mainland ports has been subsidized solely by the federal Government. The present vessel, specifically designed for this service, was built by the Department of Transport at a cost of \$567,000 and delivered in 1960 to the operating company under a charter hire agreement.

On a number of occasions in recent years the Treasury Board has expressed approval of a policy of regarding subsidy assistance to ferry vessels, which are essentially links in provincial highway systems, as primarily a provincial responsibility. In accordance with this policy, the Government of Ontario was approached early in 1964 to ascertain the amount of assistance that it would be prepared to provide in sharing the amount of subsidy required to maintain the Pelee Island service. The Province declined to contribute on the grounds that its Highway Improvement Act only permits payment of a subsidy to a municipality which in turn is paying for a portion of the cost of operating a ferry service, and in this instance no municipality was involved. The attitude of the federal Government is that if the provincial Government is not prepared to seek some measure of municipal responsibility there would seem to be no valid reason why the Province should not enact legislation to directly assist the service if it feels that it is important to the economy of the area it serves.

In approving a subsidy of \$79,000 for the year 1964-65 (from which was recovered the charter hire fee of \$51,000 for the year) the Treasury Board advised the Canadian Maritime Commission in November 1964 "that a significant provincial contribution must be obtained next year as continuation of federal subsidization at the present level will

definitely not be approved under any circumstances". Although the Commission again approached the provincial Government in January 1965, informing it of the stand taken by the Treasury Board, the Province again declined to contribute to the subsidy.

In the circumstances the Treasury Board reversed its earlier stand and authorized the inclusion of a subsidy provision of the same amount in the Estimates for 1965-66. Interim supply has permitted the payment of \$39,000, representing one-half of the subsidy.

137. *Subsidy for the construction of a floating fish processing plant, Liverpool, N.S.* In May 1961 when the Minister of Transport made a statement of government policy with respect to ship operating and shipbuilding, the House of Commons was informed that a basic intent of the new policy was to make it possible for Canadian ship operators to obtain new vessels from Canadian shipyards at reasonable and competitive prices instead of being forced to have them built abroad because of lower construction costs that prevail in other countries. The intention was also to make it possible for the Canadian fishing industry to obtain the necessary degree of assistance to encourage it to modernize its fleet by the construction of new vessels in Canadian shipyards.

A step in implementing the policy was the establishment of the Ship Construction Assistance Regulations to be administered by the Canadian Maritime Commission. Each application for assistance requires the approval of an interdepartmental committee established under the Regulations, the Minister of Transport and the Treasury Board. The Regulations make provision for the payment of a subsidy of 35% of the approved cost of a vessel of 200 tons gross tonnage or over that is not self-propelled and is intended for use in commercial enterprise. In April 1964 a Liverpool company, formed to engage in fishing and fish processing, and a shipbuilder made joint application for a subsidy in respect of what was described as a "steel barge (floating fish processing plant)". The contract price of \$545,000 was later accepted as the approved cost for subsidy purposes. This cost included fish processing equipment to be affixed or built into the structure, the cost of non-Canadian materials and equipment being \$127,000. On this basis the subsidy, when paid after acceptance of the barge from its builder and registration under the Canada Shipping Act, will amount to \$191,000 of which a substantial portion will relate to the fish processing equipment including an amount of \$45,000 in respect of materials and equipment of non-Canadian content. Our information indicates that the barge, while capable of mobility to a limited degree, is to be moored more or less permanently at Liverpool, N.S. to serve as a factory.

Although the application for subsidy fell within the Ship Construction Assistance Regulations and was approved by the several responsible authorities, it seems questionable whether the subsidy program was ever intended to reduce the costs involved in the development of a site for, and the fitting out of, a fish processing plant.

138. *Awards under the Pension Act.* Reference has been made in prior Reports to inconsistencies and ambiguities in the Pension Act, R.S., c. 207, that have made it difficult to determine whether awards under the Act, particularly those granted on a discretionary and compassionate basis and to persons in a dependent condition, were in conformity with

the provisions of the Act. The Public Accounts Committee in its Eighth Report 1964 made certain recommendations designed to overcome these shortcomings (see Appendix 1, item 35):

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40(2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38) be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award; and
- (e) that, having regard for section 40(1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45(2) of the Act.

The Minister of Veterans Affairs pointed out in a letter to the Chairman of the Public Accounts Committee, dated March 3, 1965, that definition of the term "specially meritorious" would limit the discretionary authority of the Commission; that the ambiguity in the Act with respect to concurrent payments to or on behalf of children, dependent parents and brothers and sisters could be eliminated only by withdrawal of their pension entitlement; that the Act was designed to encourage a widowed mother to seek employment; that the Commission had no authority to reject a claim for pension so long as the applicant is in a dependent position even though the parent turned property over to a son or daughter for the sole purpose of qualifying for a pension; and that the parent should, in the event that she falls into a dependent condition, be equally entitled on account of each son.

The Public Accounts Committee has not found it possible to consider the comments received concerning its previous recommendations and observations. When the Committee resumes its meetings, our follow-up report on these recommendations and observations as detailed in Appendix 1 will include reference to the Minister of Veterans Affairs' letter referred to above.

In September 1965 the Treasury Board approved the appointment of a committee of three persons not connected with the Department of Veterans Affairs or the Canadian Pension Commission for a survey of the organization and work of the Canadian Pension

Commission and for preparation of a report and recommendations thereon to the Minister of Veterans Affairs. Included in the field to be studied is the interpretation of such sections of the Pension Act which, in the judgment of this committee, should be considered.

139. *War veterans allowances.* In prior years' Reports comment has been made on various aspects of awards under the War Veterans Allowance Act, R.S., c. 340. The 1962 Report referred to the fact that the provisions of the Act and its Regulations relating to financial penalties or imprisonment, or both, for making false or misleading statements or failing to disclose pertinent information which might have a bearing on the amount of the award, were seldom invoked by the War Veterans Allowance Board. Attention was also drawn to an anomaly whereby, although the awards are based ostensibly on need, the recipients' equities in mortgages and agreements for sale were not taken into account as personal property in the determination of entitlement under the Act.

The 1963 Report repeated these comments and also drew attention to the fact that income of children involved in the award is treated as exempt income in the calculation of the allowance even though the recipient may qualify for increased allowance by considering such children as dependents.

The Public Accounts Committee after reviewing these comments made the following recommendations in its Eighth Report 1964 (see Appendix 1, item 36):

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate; and
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

The Minister of Veterans Affairs in a letter to the Chairman of the Public Accounts Committee dated March 3, 1965, indicated that full consideration would be given to the comments of the Committee with respect to a stiffer line on wrongdoers but that it had been the Department's experience that the Courts had invariably dealt leniently with veterans. The Minister considered that the policy with respect to mortgages receivable and agreements for sale should not be changed as it had proved eminently satisfactory over the years. Neither did he feel that any change should be made with respect to income of dependent children, noting that the cases where a dependent child is in receipt of assessable income are rare. The Minister pointed out that in considering the three recommendations of the Public Accounts Committee he was mindful of the fact that the War Veterans Allowance Act is welfare legislation and, therefore, should be administered with a broad and liberal interpretation.

The Public Accounts Committee has not found it possible to consider the comments received concerning its previous recommendations and observations. When the Committee resumes its meetings, our follow-up report on these recommendations and observations as detailed in Appendix 1 will include reference to the Minister of Veterans Affairs' letter referred to above.

Another problem associated with the administration of the War Veterans Allowance Act stems from the necessity of determining the value of property used by an applicant as a residence. Regulations provide that 5% of the amount by which the fair and reasonable value of the property exceeds \$9,000 (the exemption provided in the Act which has been increased to \$10,000, effective June 30, 1965) shall be considered as income. The War Veterans Allowance Board uses the amount that the veteran invested in the residence as the fair and reasonable value in calculating the allowance to be paid to an applicant. As the acquisition of the property may have taken place many years before the determination of the entitlement, and in the interval property values may have greatly increased, the practice followed by the Board leads to some unusual results, of which the following is an example. The widow of a veteran was granted an allowance of \$143 per month with effect from March 6, 1965. In the calculation of her entitlement, the property on which she resides was valued at \$9,300, the purchase price in 1946. The property has been for sale at \$89,000 for the past five years, although the realtor with whom the property is listed believes that \$60,000 would be more realistic.

140. *Unpaid accounts carried forward to new fiscal year.* Appropriations for the Department of National Defence for 1964-65 were insufficient to provide for all accounts coming due for payment in the course of the year, and accounts totalling \$7,308,000 were held over to be paid out of 1965-66 funds, as follows:

Vote 15	Royal Canadian Navy.....	\$ 1,932,000
Vote 20	Canadian Army.....	493,000
Vote 25	Royal Canadian Air Force.....	4,694,000
Vote 35	Defence Research and Development.....	189,000
		<hr/>
		\$ 7,308,000
		<hr/>

Supplementary Estimates (D)—the final supplementary estimates of the year—included an amount of \$7 million for the Canadian Army which was not quite sufficient to cover all outstanding accounts. No final supplementary estimates were requested for the other Services.

Funds provided by Vote 15 of the Department of Citizenship and Immigration for administration and operation of the Indian Affairs Branch were insufficient for payment of all accounts of the year, and accounts totalling \$1,080,000 were held over for payment in 1965-66. No supplementary estimate was requested.

Another charge applicable to the year but which has been carried forward as part of the current assets item "Departmental working capital advances and revolving funds" is an amount of \$1,318,000, included in the balance of \$23,152,000 in the "Agriculture and Commodities Stabilization Account" (see paragraph 171). This is the amount by which

the \$57,118,000 provided by Appropriation Act No. 2, 1965, Department of Agriculture Vote 80d, the final Supplementary Estimates of the year, fell short of meeting the balance of the loss of \$2,555,000 brought forward from the previous year and the loss of \$55,881,000 (exclusive of the estimated cost of major services provided without charge by government departments) experienced by the Agricultural Stabilization Board during the year (see also paragraph 213).

141. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1964-65 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the Post Office numbered 7 and amounted to \$7,270. Of these, 3 involving \$693 were recovered in full and there was a partial recovery of \$2,133 in one other case.

Reference was made in last year's Report (paragraph 93) to losses totalling \$168,263 which had been shown as outstanding at March 31, 1963. Some of these amounts dated back to 1952-53 and no final action by way of adjustment, recovery or charge to the Public Officers Guarantee Account had been reported. Although the attention of the Treasury Board had been directed to these long-outstanding amounts in October 1963 and again in February 1965, there remained 16 balances totalling \$126,983 still to be cleared at March 31, 1965. Additional balances totalling \$65,928 were outstanding at March 31, 1965 in respect of 9 losses which had been reported in 1963-64.

Losses suffered by the Post Office Department in 1964-65 numbered 97 and amounted to \$67,969. Of these, 62 totalling \$27,276 were recovered in full, while partial recoveries amounted to \$8,467.

142. *Non-productive payments.* Since 1961 there has been included in the Auditor General's annual Report to Parliament at the request of the Public Accounts Committee a listing of the non-productive payments which came to our notice in the course of our audit.

After considering the listings of the non-productive payments that were included in the 1962 and 1963 Reports, the Committee in its Sixth Report 1964, tabled in the House on October 20, 1964, expressed concern at the increasing number which were being noted and went on to state:

Since the majority of these cases involved expenditure by three departments, namely Public Works, National Defence and Transport, members of the Committee questioned the deputy ministers of these three departments closely as to the causes and reasons of many of the larger losses. A number of these losses arose from circumstances beyond the control of the department named, for example Public Works in its role as a service department.

The Committee is of the opinion that the majority of these losses must be attributed either to failure to exercise normal commercial prudence in entering into contractual obligations or to lack of effective departmental specifications, organization or co-ordination. It also believes that failure by departments to pinpoint blame for many such losses and to take corrective action accordingly is a contributing factor.

The Committee reiterates the request it made to the Auditor General in 1961 concerning this type of loss, namely that in his future annual reports to the House of Commons the Auditor General continue to include listings of all non-productive payments coming to his notice in the course of his audit.

In our 1964 Report which, as stated in paragraph 4 of this Report, has not yet been referred to the Public Accounts Committee, 35 cases of non-productive expenditures were listed in Appendix 2. These, together with 2 other examples of non-productive expenditures noted and commented upon under Comments on Expenditure and Revenue Transactions, involved an estimated \$2,089,000.

In view of the comments of the Public Accounts Committee quoted above, the Audit Office has endeavoured this year to pinpoint more closely the underlying reasons for this type of cost, particularly where the circumstances of the non-productive payment appeared to have been beyond the control of the department or agency against whose appropriation it was charged. We believe this should enable closer study to be given to the individual cases both by those responsible and by the members of the House and the Public Accounts Committee.

The non-productive payments listed by the Audit Office each year are those payments coming to the notice of the Auditor General in the course of his audit. It is important to understand that many of them have their origin in transactions commenced in prior years and that they come to notice only when final settlement is made during the year under audit.

In this Report we have dealt with 37 cases of non-productive payments estimated at \$22,737,000. Of these, 21 are included in the foregoing paragraphs while the remaining 16 cases are as follows:

1. **PAYMENT OF SALARY TO A JUDGE DURING A PERIOD OF LEAVE OF ABSENCE.**—Pending the disposal of criminal charges that had been laid against him, a judge of the Superior Court of Quebec was granted leave of absence from May 1, 1964 under the authority of the Governor in Council. The covering Order in Council did not stipulate whether leave would be with or without pay. On October 23, 1964 the judge was convicted on one count of perjury and sentenced to imprisonment for two years. He appealed the conviction and in October 1965 the Quebec Court of Appeal granted him a new trial. To March 31, 1965 the judge had been paid \$19,250 in salary while on leave.
2. **CONSTRUCTION OF FUEL STORAGE FACILITIES, SHELBURNE NAVAL BASE, N.S.**—In May 1963 a contract was entered into for the construction of fuel storage facilities at the Royal Canadian Navy base at Shelburne in the amount of \$724,800, of which \$586,800 was firm, the remainder being based on estimated quantities at firm unit prices. Engineering and design changes increased the contract price by \$65,300. In addition, the contractor claimed \$185,900 for prolongation of the contract due to changes imposed by the Crown, and for extra dredging, rock excavation, steel piling, and the removal of and repairs to the pipe line made necessary by unforeseen conditions encountered on the marine floor. This claim was settled for \$130,300.

Part of the aluminum pipe specified in the original design collapsed and when removed for repair it was also found to be severely corroded. Before submerging the repaired pipe the contractor expressed doubts about its suitability for underwater installation under the conditions encountered and gave notice that he would not be responsible for its performance. As there was also a risk of damage to the fishing industry if the pipes ruptured, it was decided to replace the aluminum with steel piping at a cost of \$118,600. This brought the final cost of the project to \$1,039,000.

3. **ADDITIONAL COSTS FOR CONSTRUCTION OF A COMMUNICATIONS BUILDING AND SERVICES FOR THE CANADIAN ARMY, PENHOLD, ALBERTA.**—In August 1961 a contract was entered into for the construction of a communications building and services at Penhold in the amount of \$2,150,000, of which \$2,129,000 was firm, the remainder being based on estimated quantities at firm unit prices. Design and engineering changes increased the cost by \$70,900 to \$2,220,900.

In December 1963 the contractor submitted a claim in the amount of \$228,300 for additional costs as a result of delays attributed to changes imposed by the Crown and in carrying out the work as directed by the Crown. The claim was settled for \$65,500, bringing the final cost of the project to \$2,286,400.

4. **DAMAGE CLAIM RESULTING FROM EXPROPRIATION OF LAND, PENHOLD, ALBERTA.**—In June 1963, five hundred and fourteen acres were expropriated to extend the runways of R.C.A.F. Station, Penhold for jet training. On September 19, 1963 the Treasury Board authorized an advance payment of \$100,000 for the property.

Prior to any payment being made, negotiations with the Department of Transport indicated that sufficient air space would not be available in this area to make jet training at Penhold feasible. Accordingly, the plan to expand the station was cancelled and in October 1963 the expropriation was abandoned and the land returned to the former owner.

After the abandonment the owner claimed reimbursement for all losses and damages resulting from the expropriation of the land and subsequent interference with his farm production, and in March 1965 he was paid \$15,000 in full settlement of his claim.

5. **ADDITIONAL COSTS DUE TO FAULTY SPECIFICATIONS—R.C.A.F. STATION, SUMMERSIDE, P.E.I.**—In June 1962 Defence Construction (1951) Limited entered into a contract, calling for completion by September 14, 1962, for the re-roofing of hangars at the R.C.A.F. Station, Summerside, at a firm price of \$124,000. In the early stages of the contract it was found that an acceptable wrinkle-free roofing finish could not be obtained by using the specified cold process method for application of the roofing felt approved by the Department of National Defence. The work was suspended while various alternative methods of cold process applications were tested. With the onset of winter the job was closed down and all equipment and unused material were placed in storage pending resumption of work in the spring. In the meantime, it was established that the roofing felt could be successfully applied by using propane-heated rollers. In June 1963 work was recommenced using this process and was completed on September 26, 1963. The contractor submitted a claim of \$15,000 for additional costs arising from the prolongation of the contract and from closing down and reopening the job. The claim was settled for \$10,689 in June 1964.

6. **ADDITIONAL COSTS FOR INSTALLATION OF ACTION SPEED TACTICAL TEACHER AT JOINT MARITIME WARFARE SCHOOL, HALIFAX, N.S.**—A contract was entered into for the installation of an Action Speed Tactical Teacher at the Joint Maritime Warfare School at an estimated cost of \$74,000, the work to begin on September 1, 1959 and be completed by March 31, 1960.

The equipment was to be installed on a false wooden floor supplied by the Navy under separate contract. A delay occurred when the Naval Base Fire Chief prohibited the use of wood. He finally settled for a steel frame and plywood treated with fire-retarding paint. In December, after a delay of fourteen weeks, work on the floor had progressed sufficiently for the contractor to recommence installation activities. As a result of this delay, the contractor was paid \$4,000 for additional labour in connection with removing, storing and rehandling of cables and equipment, bringing the final cost of the contract to \$78,000.

7. **COST OF DELAY IN RETURNING RENTED IMPRINTERS.**—In 1963 the Department of Defence Production, on behalf of the Unemployment Insurance Commission, entered into a renewal contract for the rental of 2,500 aluminum plate imprinters for the period from July 1, 1963 to March 31, 1964 at a rate of \$1 per unit per month, payable in advance. When the imprinters were not returned by the expiry date of the contract the supplier claimed \$2,500 rental for the month of April 1964. Negotiations with the supplier led to his forgoing rentals on the 985 imprinters which had been received by him in the first seven days of April and the Commission paid rentals of \$1,515 on the remaining imprinters although none of them were used in the period.
8. **ADDITIONAL COST DUE TO DELAY IN AWARDING CONTRACT, BANFF-JASPER HIGHWAY.**—In 1961 the Department of Public Works obtained tenders for the construction of a bridge on the Banff-Jasper Highway for the Department of Northern Affairs and National Resources. Although the tenders were opened on September 19th there was a delay of two months before a contract was awarded to the lowest tenderer, whose bid of \$254,000 was \$30,000 less than that of the second low bidder. In addition to the delay caused by the normal procedure of checking the successful tenderer's design and communicating with him in that regard, there was a further delay while contracts generally were reviewed to see which ones could be deferred. Subsequently the contractor, who lost money on the project, presented a claim for extra expenses incurred because of the delay in the placing of the contract. His contention was that wet autumn weather, followed by an extremely cold period, had forced him to produce concrete aggregates from frozen material under much more costly conditions than would have been the case if the work had been performed in early autumn. During the year he was paid \$20,000 in partial compensation for additional costs which he attributed to the delay. In authorizing payment of this claim, the Treasury Board made an exception to its policy of not accepting claims based on the delay in the award of a contract.
9. **ADDITIONAL COSTS DUE TO CONSTRUCTION DELAY, POINTE-AU-PÈRE, QUE.**—In March 1964 the Department of Public Works awarded contracts for the improvement of facilities at Pointe-au-Père and Baie Comeau in connection with the operation of a ferry service between the two communities. Shortly afterwards the operators of the ferry expressed concern that both terminals were to be reconstructed during the season of heaviest traffic because this would interfere seriously with the maintenance of their schedule. The conclusion was reached that the only acceptable procedure that would ensure the continued operation of the ferry would be to delay the Pointe-au-Père project for approximately three months. The contractor agreed on condition that he be reimbursed for additional costs incurred as a result of the delay. During the year he was paid \$14,938 in settlement of his claim.
10. **ADDITIONAL COST DUE TO CONSTRUCTION DELAY, CLARENVILLE, Nfld.**—The Department of Public Works awarded a contract in 1963 for the construction of the main haulout section for a marine dry dock facility at Clarendville required by the Department of Transport. One phase of the contract involved the dredging of an area to accommodate

the underwater track, including the excavation of some bedrock. Borings had previously been taken at the site of the work but not at its outer end because a projection of the dip of the rock, as indicated by the borings in the inner area, showed the top surface of the rock passing below the maximum dredged depth required. As excavation proceeded, however, bedrock was encountered at the outer end which necessitated a change in the contractor's method of operation and delayed progress of the work. This resulted in a decision to close down the undertaking for the winter months of 1963-64 because of the effect of the delay on other phases. During the year the contractor was paid \$12,909 to compensate him for additional costs incurred due to the delay and the closing down and reopening of the work.

11. **COST OF REMEDIAL WORK DURING CONSTRUCTION PERIOD, OTTAWA.**—The contractor for the construction of the Trade and Commerce Building went into bankruptcy in 1957 and a contract for completion of the work was awarded to another company. Where possible, new agreements were negotiated with the sub-contractors of the bankrupt company. The original electrical sub-contractor undertook to proceed and the Department of Public Works agreed that if it was found necessary to replace or rehabilitate material or equipment "beyond that normally experienced on a project of this size and duration", such work would be carried out under the direction of the general contractor on a job work order basis. In 1958 the sub-contractor presented a claim for extra costs, including an amount for the rehabilitation of elements of his work after the post-bankruptcy shutdown. Until 1964 the Department resisted the claim, taking the view that the commitment with regard to rehabilitation costs was intended to apply only to a case where the sub-contractor had taken all reasonable precautions to protect his work and, despite this, corrective measures were required. In that year, however, the conclusion was reached that certain remedial costs stemming from condensation and other moisture conditions in the building during the shut-down period, at which stage it was not weatherproof, could be recognized and \$12,190 was paid to the sub-contractor.
12. **ADDITIONAL COST DUE TO CONSTRUCTION DELAY, CALGARY, ALTA.**—In 1958 the Department of Public Works awarded a contract for the construction of a postal terminal building at Calgary. During the year a settlement of \$8,150 was made with the contractor—in respect of a much larger claim—for reimbursement of additional costs resulting from a number of delays. The major part of the claim centered around the fact that the details of the mail handling equipment had not been finalized prior to the commencement of building construction. The late award of the separate equipment contract did not permit the building contractor to complete his work in certain areas as expeditiously as planned, with the result that site overhead costs were abnormal.
13. **COST RESULTING FROM DISCREPANCY IN SPECIFICATIONS, MATAPEDIA, QUE.**—In October 1963 a contract was awarded by the Department of Public Works for repairs to a bridge at Matapedia. Because of the age of the bridge special bearing pads were required to reduce the residual stresses on the bridge members. The Department's specifications for the work required that pads of a certain grade be used, but also required that the pads comply with the requirements for such pads appearing in a publication which contained standard specifications for highway bridges. As the departmental requirement was at variance with that contained in the publication, a situation developed which led to a delay of several weeks in the procurement of the proper pads. The delay forced a temporary shut-down of the work and extension into colder weather at extra cost to the contractor. In December 1964 he accepted a payment of \$7,622 in settlement of a larger claim for costs arising from the discrepancy in the specifications.

14. **ADDITIONAL COST DUE TO CONSTRUCTION DELAY, OTTAWA.**—During the construction of the foundation work for an administration building for the Department of Agriculture, difficulties were encountered in the initial pile driving operations. The investigation and redesign which were required resulted in a succession of notices of change to the contractor over a period of several weeks. His planned schedule was disrupted and delayed by this circumstance as well as by the testing of the piles previously driven. During the year he was allowed \$5,324 in recognition of the fact that his supervisory staff and key operating personnel had been unable to work at full capacity during the redesign period.
15. **COURT AWARD TO ARCHITECT IN RESPECT OF ABANDONED WORK, ST. JOHN'S, NFLD.**—In 1954 an architect was engaged by the Department of Public Works in connection with a proposed postal terminal building at St. John's. After he had submitted preliminary plans for approval and had proceeded with the preparation of working drawings, it was decided that he should work in association with another architect. Subsequently he presented a claim to the Department for work done to that point, stating that changes in requirements and ideas were so extensive that it had been necessary to abandon the early results of his undertaking. The Department resisted the claim but in 1964 he was awarded \$4,147, with costs, in the Exchequer Court of Canada in respect of the abandoned work.
16. **CANADIAN GOVERNMENT PARTICIPATION IN EXPO '67.**—In January 1964 a firm of architects was engaged by the Department of Trade and Commerce to design plans and to provide professional services for the erection of the Canadian Government Pavilion, comprising six structures and supporting facilities, at the Canadian Universal and International Exhibition, Montreal, 1967. Subsequently, the Treasury Board approved the award of a contract for construction of the Pavilion for \$6,138,000. The land on which the Pavilion is being constructed has been reclaimed by the City of Montreal at a cost of several million dollars and the site for one of the buildings, to include administrative offices, a theatre and an arts centre, is estimated to be worth in excess of \$400,000.

The initial concept envisaged a project of temporary buildings and structures to be dismantled at conclusion of the Exhibition. However, a Cabinet decision of July 1964 accepted the suggestion that the building to house the theatre be a permanent structure and become a gift to the National Theatre School of Canada, Montreal, provided the School negotiated possession of the land from the City. The architects were then informed and directed to proceed accordingly. In December 1964 the School had not yet acquired the land and, due to the limited time available for completion of the project, it was necessary to abandon the plans for a permanent building.

As a result the architects were paid \$28,000 for plans which could not be used.

Summary of Assets and Liabilities

143. The Statement of Assets and Liabilities as at March 31, 1965, with comparative figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.

Assets

144. The following table lists the assets at March 31, 1965, by main headings in the Statement of Assets and Liabilities, in comparison with the corresponding balances at the close of the two previous fiscal years:

	March 31, 1963	March 31, 1964	March 31, 1965
Current assets.....\$	820,271,000	\$ 1,286,794,000	\$ 1,070,688,000
Advances to the Exchange Fund Account.....	2,736,000,000	2,601,000,000	2,621,000,000
Investment in special United States of America securities—Columbia River Treaty.....	—	—	219,479,000
Sinking fund and other investments held for retirement of unmatured debt.....	22,312,000	—	5,441,000
Loans to and investments in Crown corporations.....	4,468,119,000	4,584,194,000	4,996,301,000
Loans to national governments....	1,210,777,000	1,195,685,000	1,206,577,000
Other loans and investments.....	1,110,655,000	1,197,816,000	1,139,382,000
Securities held in trust.....	26,016,000	38,882,000	53,060,000
Deferred charges.....	936,644,000	400,361,000	208,585,000
Suspense accounts.....	136,000	141,000	—
Inactive loans and investments....	94,824,000	94,824,000	94,824,000
Total recorded assets.....	11,425,754,000	11,399,697,000	11,615,337,000
Less—Reserve for losses on realization of assets.....	546,384,000	546,384,000	546,384,000
Net recorded assets.....\$	\$ 10,879,370,000	\$ 10,853,313,000	\$ 11,068,953,000

145. *Current assets.* The balances included under this heading at March 31, 1965, with the comparable balances at the close of the two previous years, were:

	March 31, 1963	March 31, 1964	March 31, 1965
Cash.....\$	511,347,000	\$ 984,643,000	\$ 850,282,000
Departmental working capital advances and revolving funds:			
Agricultural Commodities Stabilization Account.....	139,043,000	63,954,000	23,152,000
Defence Production Revolving Fund.....	39,068,000	27,791,000	30,157,000
Bullion and coinage accounts.....	27,212,000	29,401,000	18,704,000
Stockpiling of uranium concentrates..	—	13,537,000	24,414,000
Other.....	37,944,000	34,123,000	37,724,000
	243,267,000	168,806,000	134,151,000
Securities held for the Securities Investment Account.....	33,480,000	99,860,000	57,120,000
Other current assets.....	32,177,000	33,485,000	29,135,000
	\$ 820,271,000	\$ 1,286,794,000	\$ 1,070,688,000

The \$23,152,000 balance of the Agricultural Commodities Stabilization Account at March 31, 1965 was \$40,802,000 less than the corresponding amount at the end of the preceding year. This was mainly due to the sale of residual stocks of butter accumulated from 1958 to 1962.

The amount of \$24,414,000 for stockpiling of uranium concentrates represents charges to Department of Trade and Commerce Vote L63c, 1963-64, and Vote L37a, 1964-65, for the acquisition of uranium concentrates by Eldorado Mining and Refining Limited on behalf of Her Majesty in right of Canada and for the cost of stockpiling the uranium concentrates so acquired.

The \$57,120,000 balance of the Securities Investment Account represents, at amortized cost, temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act.

146. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum (\$3,000,000,000 at March 31, 1965) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c. 315. The advances to the Account at each year-end are included in the Statement of Assets and Liabilities at their total, less repayments, with a parenthetical note giving the market value of the investments from the advances. Thus at March 31, 1965 the amount shown for Advances to the Exchange Fund Account was \$2,621,000,000, being the total of the advances less repayments, whereas the market value of investments from advances was \$2,653,407,000, indicating an unrecorded surplus of \$32,407,000. By comparison, at the close of the preceding year there was an unrecorded surplus of \$30,200,000.

A summary of the transactions in the Account for its financial year ended December 31, 1964 is included in paragraph 228 of this Report.

147. *Investment in special United States of America securities—Columbia River Treaty.* This investment was approved by Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a of the Appropriation Act No. 7, 1964:

To provide for and authorize the purchase out of United States dollars paid to Canada, pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin, together with any Protocol or Exchange of Notes relating thereto, of such obligations of the Government of the United States as may be approved by the Governor in Council, and the subsequent disposition of such obligations. . . .

148. *Sinking fund and other investments held for retirement of unmatured debt.* This item consists of unmatured securities of the Government of Canada purchased at a discount during the year. The amount represents the purchase price of the securities less interest earned since date of purchase.

149. *Loans to and investments in Crown corporations.* The following schedule shows the nature of these loans and investments at March 31, 1965:

	Capital stock at cost	Advances	Total
Central Mortgage and Housing Corporation.....		\$ 2,137,844,000	\$ 2,137,844,000
Canadian National Railways.....	1,020,207,000	413,932,000	1,434,139,000
Farm Credit Corporation.....		441,341,000	441,341,000
The St. Lawrence Seaway Authority...		409,224,000	409,224,000
National Harbours Board.....		199,833,000	199,833,000
Export Credits Insurance Corporation.	5,000,000	86,767,000	91,767,000
Atomic Energy of Canada Limited....	15,000,000	50,698,000	65,698,000
National Capital Commission.....		59,851,000	59,851,000
Canadian Overseas Telecommunication Corporation.....		55,054,000	55,054,000
Polymer Corporation Limited.....	30,000,000		30,000,000
Northern Canada Power Commission..		27,797,000	27,797,000
Canadian Broadcasting Corporation...		17,250,000	17,250,000
Eldorado Mining and Refining Limited	8,247,000		8,247,000
Canadian Arsenals Limited.....		7,500,000	7,500,000
Bank of Canada.....	5,920,000		5,920,000
Canadian Commercial Corporation....		3,500,000	3,500,000
Canadian National Railways—re Yarmouth-Bar Harbour ferry.....		715,000	715,000
Canadian National (West Indies) Steamships Limited.....	1,000	324,000	325,000
Canadian Patents and Development Limited.....	296,000		296,000
	<u>\$ 1,084,671,000</u>	<u>\$ 3,911,630,000</u>	<u>\$ 4,996,301,000</u>

The total of \$4,996,301,000 (an increase of \$412 million over the previous year) does not represent the total equity of the Government of Canada in its Crown corporations at March 31, 1965. This equity in fact amounted to \$6,492,951,000 as shown by their individual financial statements published in Volume III of the Public Accounts. The principal reason for this is that the Government of Canada maintains its accounts on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of capital assets which were charged by the Government as expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. On the other hand, the corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice, and in a number of cases have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year used by the Government.

The excess of \$1,496,650,000 existing at March 31, 1965 as a result of the foregoing is reconciled and explained in Appendix 12, Section 9 of Volume I of the Public Accounts entitled "Government of Canada Equity in Crown Corporations as at March 31, 1965".

The advances to Central Mortgage and Housing Corporation increased by \$222 million resulting from additional advances of \$248 million, less repayments of \$75 million, pursuant to section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, together with advances of \$71 million, less repayments of \$19 million, in respect of projects entered into with provinces, municipalities and universities. Other advances were repaid to the extent of \$3 million.

The total for the Canadian National Railways reflects a net increase of \$23 million due to a further investment of \$25 million in 4% preferred stock in the Company pursuant to section 9 of the Canadian National Railways Financing and Guarantee Act, 1964, partly offset by a reduction of \$1.4 million in temporary loans required by Air Canada.

The amount for Farm Credit Corporation shows an increase of \$102 million over the preceding year due to further loans of \$112 million under the Farm Credit Act, 1959, c. 43, less repayments of \$13 million, and an additional \$3.6 million subscription to the capital of the Corporation by the Government under section 12 of the Act.

The amount shown for The St. Lawrence Seaway Authority reflects a decrease of \$6.5 million comprising a net decrease of \$25 million in deferred interest on loans, offset by additional loans of \$18.5 million during the year (see paragraphs 161 and 209).

The amount shown for Export Credits Insurance Corporation reflects an increase of \$33 million in advances to enable the Corporation to provide long-term financing of export sales of capital goods.

There was an increase of \$12 million in advances to Atomic Energy of Canada Limited mainly to finance the construction of the Douglas Point, Ontario, generating station.

Loans to the National Capital Commission increased by \$6.9 million.

Advances to the Northern Canada Power Commission increased by \$5.4 million.

In 1964-65, the financing of the capital requirements of the Canadian Broadcasting Corporation was by way of loans and advances rather than by an expenditure appropriation as was formerly the case. These advances, under the authority of Vote L10, Appropriation Act No. 10, 1964 totalled \$14 million and are to be repaid by equal annual instalments over a twenty-year period.

150. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1965 in comparison with the balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Belgium.....	\$ 32,298,000	\$ 29,991,000	\$ 27,684,000
France.....	67,600,000	67,600,000	67,600,000
India.....	20,117,000	25,424,000	19,326,000
Netherlands.....	32,130,000	32,130,000	32,130,000
United Kingdom.....	1,057,045,000	1,039,277,000	1,058,863,000
Other countries.....	1,587,000	1,263,000	974,000
	<u>\$ 1,210,777,000</u>	<u>\$ 1,195,685,000</u>	<u>\$ 1,206,577,000</u>

The 1964 annual instalment of principal and interest on the loan to the United Kingdom was deferred by the United Kingdom in accordance with the provisions of the United Kingdom Financial Agreement Act. The increase in the indebtedness at March 31, 1965 results from the addition of interest of \$20 million for 1964 which was deferred to December 31, 2002.

The reduction in loans to India resulted from a net repayment of \$1.4 million on the loans for the purchase of aircraft and spare parts and a repayment of \$4.7 million of loans for the purchase of wheat and flour. No payments were due from France and the Netherlands during the year because of special payments made in 1962-63.

151. *Other loans and investments.* The balances comprising this asset item at March 31, 1965 with the comparable balances at the end of the two previous years, were:

	March 31, 1963	March 31, 1964	March 31, 1965
Subscriptions to capital of and working capital advances and loans to international organizations.....	\$ 693,998,000	\$ 702,130,000	\$ 709,754,000
Veterans' Land Act advances.....	224,486,000	243,327,000	255,661,000
Less: Reserve for conditional benefits.....	28,467,000	26,357,000	24,339,000
	196,019,000	216,970,000	231,322,000
Loans to provincial governments.....	116,818,000	113,652,000	98,436,000
Temporary loans to Old Age Security Fund.....	41,679,000	99,960,000	24,954,000
Housing projects for the Canadian Forces Advances pursuant to the Municipal Development and Loan Act.....	12,514,000	17,930,000	20,386,000
Less: Reserve for forgiveness of indebtedness.....	—	—	9,474,000
	—	—	1,837,000
Balances receivable under agreements of sale of Crown assets.....	8,303,000	5,959,000	4,147,000
Other balances.....	41,324,000	41,215,000	42,746,000
	<u>\$ 1,110,655,000</u>	<u>\$ 1,197,816,000</u>	<u>\$ 1,139,382,000</u>

The following is a listing of the balances comprising the \$709,754,000 shown for the first item in the above table at March 31, 1965:

Subscriptions to capital:	
International Monetary Fund.....	\$ 577,250,000
International Bank for Reconstruction and Development.....	80,483,000
International Development Association.....	40,668,000
International Finance Corporation.....	3,522,000
	<u>701,923,000</u>
Working capital advances and loans.....	7,831,000
	<u>\$ 709,754,000</u>

During the year Canada subscribed an additional \$7.9 million to the capital of the International Development Association.

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The loans to provincial governments at March 31, 1965 with the comparable balances at the end of the two previous years were:

	March 31, 1963	March 31, 1964	March 31, 1965
Newfoundland.....	\$ 501,000	\$ 498,000	\$ 493,000
Nova Scotia.....	7,317,000	7,230,000	7,139,000
New Brunswick.....	31,084,000	34,371,000	32,788,000
Manitoba.....	12,331,000	11,643,000	10,708,000
Saskatchewan.....	26,874,000	27,231,000	28,461,000
Alberta.....	7,170,000	6,743,000	6,310,000
British Columbia.....	18,450,000	15,501,000	12,537,000
	<u>103,727,000</u>	<u>103,217,000</u>	<u>98,436,000</u>
Provincial Tax Collection Agreements Account	13,091,000	10,435,000	—
	<u>\$ 116,818,000</u>	<u>\$ 113,652,000</u>	<u>\$ 98,436,000</u>

The reduction of \$75 million in temporary loans to the Old Age Security Fund is the result of the surplus from transactions during 1964-65 in the special account provided for by section 11 of the Old Age Security Act, R.S., c. 200. The following is a summary of the transactions relating to the Fund during the past three years:

	1962-63	1963-64	1964-65
Collections of tax			
On sales.....	\$ 302,239,000	\$ 331,760,000	\$ 383,150,000
On personal incomes.....	273,650,000	302,600,000	431,900,000
On corporation incomes.....	115,250,000	115,750,000	145,250,000
	<u>691,139,000</u>	<u>750,110,000</u>	<u>960,300,000</u>
Payments of pensions under the Old Age Security Act.....	734,382,000	808,391,000	885,294,000
Deficiency (surplus) for the year.....	43,243,000	58,281,000	(75,006,000)
Preceding year's balance brought forward.....	(1,564,000)	41,679,000	99,960,000
Deficit at year-end.....	<u>\$ 41,679,000</u>	<u>\$ 99,960,000</u>	<u>\$ 24,954,000</u>

The advances pursuant to the Municipal Development and Loan Act, 1963, c. 13, were made to provide financial assistance to augment or accelerate municipal capital works programs. Section 11 of the Act provides for the forgiveness of 25% of the principal amount of a loan where the municipal project in respect of which the loan was extended is completed to the satisfaction of the Municipal Development and Loan Board on or before the 31st day of March 1966. At March 31, 1965 advances with respect to projects not completed amounted to \$7,349,000 and accordingly a reserve of 25% or \$1,837,000 was established to cover the portion of the advances to be forgiven.

152. *Securities held in trust.* The amount of \$53,060,000 shown under this heading represents securities held for the following accounts: guarantee deposits in respect of oil

and gas permits, \$27,011,000; Municipal Development and Loan Board, \$9,474,000; guarantee deposits in respect of customs duties and excise taxes, \$5,153,000; pilots' pension funds, \$4,644,000; contractors' securities, \$4,406,000; and other, \$2,372,000.

153. *Deferred charges.* The balances included under this heading at March 31, 1965 with the comparable balances at the close of the two previous years were:

	March 31, 1963	March 31, 1964	March 31, 1965
Unamortized portion of actuarial deficiencies—			
Canadian Forces Superannuation Account.....	\$ 524,849,000	\$ —	\$ 53,762,000
Public Service Superannuation Account	276,661,000	276,661,000	39,921,000
Royal Canadian Mounted Police Superannuation Account.....	3,533,000	—	4,153,000
	<u>805,043,000</u>	<u>276,661,000</u>	<u>97,836,000</u>
Unamortized loan flotation costs.....	131,601,000	123,700,000	110,749,000
	<u>\$ 936,644,000</u>	<u>\$ 400,361,000</u>	<u>\$ 208,585,000</u>

The amounts appearing under the heading "Unamortized portion of actuarial deficiencies" represent the balances of amounts credited to the superannuation accounts to cover actuarial deficiencies in those accounts with offsetting charges in the "Deferred charges" accounts. The deficiency of \$276,661,000 at March 31, 1964 in respect of the Public Service Superannuation Account was written off to net debt during 1964-65. The balances at March 31, 1965 represent the portions of actuarial deficiencies remaining after one-fifth of the deficiencies arising from pay increases authorized in 1963-64 and 1964-65 had been charged to expenditure in 1964-65 (see paragraph 173).

The item "Unamortized loan flotation costs" records the unamortized portion of discounts and commissions paid on the issuance of loans. The following is a summary of the transactions for the year:

Balance, April 1, 1964.....	\$ 123,700,000
Add:	
Discount and commissions on new loans.....	37,027,000
Adjustments.....	223,000
	<u>160,950,000</u>
Deduct:	
Amortization charges included in 1964-65 expenditure.....	50,201,000
Balance, March 31, 1965.....	<u>\$ 110,749,000</u>

154. *Suspense accounts.* The balance of \$141,000 at March 31, 1964, representing the total of individual balances that remained unadjusted in the process of reconciling payments to chartered banks for the redemption of paid cheques with the amount of those cheques, was written off to net debt during the year under authority of Department of Finance Vote 27d, Appropriation Act No. 2, 1965.

155. *Inactive loans and investments.* The \$94,824,000 shown for this item in the Statement at March 31, 1965, unchanged from the two previous years, comprised the following balances:

Loan to China in 1946, under the Export Credits Insurance Act.....	\$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada.....	24,329,000
Loans to Greece in 1919 for the purchase of goods produced in Canada.....	6,525,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)...	14,470,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain—last payment received in 1959–60.....	74,000
	<u>\$ 94,824,000</u>

Liabilities

156. The following table lists the liabilities at March 31, 1965 by main headings in the Statement of Assets and Liabilities in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Current and demand liabilities.....	\$ 1,631,338,000	\$ 1,619,692,000	\$ 1,432,616,000
Deposit and trust accounts.....	225,203,000	196,454,000	272,312,000
Annuity, insurance and pension accounts.....	4,747,017,000	5,131,054,000	5,675,841,000
Undisbursed balances of appropriations to special accounts.....	119,952,000	111,601,000	95,703,000
Deferred credits.....	107,739,000	119,447,000	113,208,000
Suspense accounts.....	6,055,000	5,118,000	5,532,000
Unmatured debt.....	17,961,836,000	18,740,097,000	18,978,214,000
	<u>\$ 24,799,140,000</u>	<u>\$ 25,923,463,000</u>	<u>\$ 26,573,426,000</u>

157. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1965, in comparison with the corresponding balances at the close of the two previous years, were:

	March 31, 1963	March 31, 1964	March 31, 1965
Non-interest bearing notes payable to the International Monetary Fund and the International Development Association.....	\$ 757,284,000	\$ 586,996,000	\$ 367,898,000
Accounts payable.....	267,364,000	342,673,000	363,925,000
Outstanding treasury cheques.....	266,409,000	319,625,000	315,077,000
Interest accrued.....	196,974,000	215,973,000	231,173,000
Interest due.....	79,461,000	91,894,000	102,034,000
Matured debt.....	32,467,000	26,820,000	19,141,000
Other balances.....	31,379,000	35,711,000	33,368,000
	<u>\$ 1,631,338,000</u>	<u>\$ 1,619,692,000</u>	<u>\$ 1,432,616,000</u>

Non-interest bearing notes payable to the International Monetary Fund (\$345 million) and the International Development Association (\$22.9 million) are those portions of Canada's quotas of the capital of these international agencies which are not covered by cash or gold.

The amounts shown for "Accounts payable" are the totals of cheques issued in April in each year in payment of charges pertaining to the previous year.

158. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1965 in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Provincial tax collection agreements... \$	—	\$ —	\$ 48,797,000
Guarantee deposits.....	12,505,000	27,375,000	34,742,000
Indian trust funds.....	28,877,000	29,167,000	31,109,000
Deposits by Crown corporations.....	30,004,000	13,650,000	26,783,000
Post Office Savings Bank.....	25,880,000	24,605,000	23,255,000
Canadian Pension Commission (Administration trust fund).....	13,024,000	13,490,000	14,489,000
National Harbours Board.....	7,855,000	13,320,000	13,560,000
Instalment purchase of bonds by public service employees.....	12,297,000	12,535,000	13,257,000
Security deposits—Municipal Development and Loan Board.....	—	—	9,474,000
Contractors' holdbacks.....	17,724,000	8,604,000	8,802,000
Contractors' security deposits.....	13,025,000	7,961,000	6,028,000
Army Benevolent Fund.....	6,013,000	5,779,000	5,560,000
Other balances.....	57,999,000	39,968,000	36,456,000
	<u>\$ 225,203,000</u>	<u>\$ 196,454,000</u>	<u>\$ 272,312,000</u>

The federal Government collects provincial income taxes from corporations and persons on behalf of all provinces except Quebec. At March 31, 1965 collections had exceeded remittances by \$48,797,000. In the two preceding years remittances had exceeded collections by \$10,435,000 in 1964 and \$13,091,000 in 1963 and these amounts were included in "Loans to provincial governments" in those years.

The increase of \$7.4 million in the balance for "Guarantee deposits" was largely due to amounts deposited with the Department of Northern Affairs and National Resources as guarantees for oil, mineral and timber rights and licences.

The increase of \$13 million in "Deposits by Crown corporations" is attributable to deposits of \$10 million by Export Credits Insurance Corporation and \$5 million by Atomic Energy of Canada Limited, offset by a withdrawal of \$2 million by Eldorado Mining and Refining Limited.

The balance in the "Post Office Savings Bank", \$23,255,000, is the amount on deposit in 299,739 depositors' accounts—a reduction of \$1,350,000 and 1,285 accounts during the year. Interest is paid on deposits at a rate of $2\frac{1}{2}\%$ per annum.

The \$36,456,000 shown for "Other balances" at March 31, 1965 represents the total of 85 balances, including: Veterans' trust funds, \$7,201,000; deferred pay of Armed Forces personnel, \$3,435,000; prepayments to Royal Canadian Mint, \$3,116,000; Northwest Territories revenue account, \$2,683,000; common school funds, \$2,678,000; Emergency Gold Mining Assistance holdbacks, \$2,318,000; National Research Council special fund, \$2,314,000; deposits made by the United States of America to cover expenditures to be made on its behalf, \$1,633,000; and the immigration guarantee fund, \$1,310,000.

159. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1965, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1963	March 31, 1964	March 31, 1965
Public Service Superannuation Account.	\$ 1,724,116,000	\$ 1,856,408,000	\$ 2,161,828,000
Canadian Forces Superannuation Account	1,605,797,000	1,821,525,000	2,028,123,000
Government Annuities Account.....	1,264,436,000	1,284,262,000	1,303,137,000
Royal Canadian Mounted Police Superannuation Account.....	37,284,000	45,987,000	57,707,000
Other balances.....	115,384,000	122,872,000	125,046,000
	<u>\$ 4,747,017,000</u>	<u>\$ 5,131,054,000</u>	<u>\$ 5,675,841,000</u>

The transactions during the year ended March 31, 1965 in each of the accounts listed above are summarized as follows:

Public Service Superannuation Account

Balance, April 1, 1964.....		\$ 1,856,408,000
<i>Add:</i>		
Actuarial adjustment—Contra—"deferred charges" account.....	\$ 169,457,000	
Interest credits.....	78,716,000	
Contributions by participants.....	61,817,000	
Contributions by government.....	58,995,000	
Other credits.....	596,000	
		<u>369,581,000</u>
		2,225,989,000
<i>Deduct:</i>		
Annuity payments.....	52,587,000	
Withdrawal of contributions.....	10,829,000	
Other charges.....	745,000	
		<u>64,161,000</u>
Balance, March 31, 1965.....		<u>\$ 2,161,828,000</u>

Canadian Forces Superannuation Account

Balance, April 1, 1964.....		\$ 1,821,525,000
<i>Add:</i>		
Interest credits.....	\$ 74,982,000	
Actuarial adjustment—Contra—"deferred charges" account.....	67,202,000	
Contributions by government.....	58,774,000	
Contributions by participants.....	35,176,000	
Other credits.....	256,000	
		<hr/> 236,390,000
		<hr/> 2,057,915,000
<i>Deduct:</i>		
Annuity payments.....	18,620,000	
Gratuities and withdrawal allowances.....	11,008,000	
Other charges.....	164,000	
		<hr/> 29,792,000
Balance, March 31, 1965.....		<hr/> <hr/> \$ 2,028,123,000

Government Annuities Account

Balance, April 1, 1964.....		\$ 1,284,262,000
<i>Add:</i>		
Interest credits.....	\$ 49,180,000	
Premiums received.....	30,162,000	
Sundry adjustments.....	10,000	
		<hr/> 79,352,000
		<hr/> 1,363,614,000
<i>Deduct:</i>		
Vested annuity and commuted value payments and refunds.....	59,782,000	
Transfer to revenue of the excess over actuarial value of outstanding contracts.....	695,000	
		<hr/> 60,477,000
Balance, March 31, 1965.....		<hr/> <hr/> \$ 1,303,137,000

Royal Canadian Mounted Police Superannuation Account

Balance, April 1, 1964.....		\$ 45,987,000
<i>Add:</i>		
Actuarial adjustment—Contra—"deferred charges" account.....	\$ 5,192,000	
Contributions by government.....	3,147,000	
Contributions by participants.....	2,101,000	
Interest credits.....	1,930,000	
Contributions by Newfoundland.....	17,000	
		<hr/> 12,387,000
		<hr/> 58,374,000
<i>Deduct:</i>		
Annuities and allowances payments.....	420,000	
Termination payments.....	243,000	
Other charges.....	4,000	
		<hr/> 667,000
Balance, March 31, 1965.....		<hr/> <hr/> \$ 57,707,000

AUDITOR GENERAL'S REPORT

The following is a listing of the major items included in "Other balances" with the balances for the previous two years shown for comparative purposes:

	March 31, 1963	March 31, 1964	March 31, 1965
Veterans' Insurance Fund.....	\$ 26,187,000	\$ 27,601,000	\$ 29,027,000
Civil Service Insurance Fund.....	24,030,000	24,239,000	24,289,000
Canadian Regular Forces Death Benefit Account.....	11,464,000	13,240,000	15,010,000
Unemployment Insurance Fund.....	14,636,000	16,796,000	14,282,000
Returned Soldiers' Insurance Fund.....	13,850,000	13,295,000	12,707,000
Public Service Death Benefit Account..	7,467,000	8,612,000	9,876,000
Royal Canadian Mounted Police Dependents' Pension Fund.....	6,477,000	6,916,000	7,369,000
Public Service Retirement Fund.....	5,879,000	6,007,000	5,576,000
Pilots' Pension Funds.....	3,880,000	4,247,000	4,699,000
Members of Parliament Retiring Allowances Account.....	1,295,000	1,671,000	1,920,000
Sundry.....	219,000	248,000	291,000
	<u>\$ 115,384,000</u>	<u>\$ 122,872,000</u>	<u>\$ 125,046,000</u>

The transactions during the year ended March 31, 1965 in the Members of Parliament Retiring Allowances Account are summarized as follows:

Balance, April 1, 1964.....	\$ 1,671,000
Add:	
Contributions by participants.....	\$ 235,000
Contributions by government.....	234,000
Interest credits.....	72,000
	<u>541,000</u>
	2,212,000
Deduct:	
Annual allowances.....	288,000
Withdrawal allowances.....	4,000
	<u>292,000</u>
Balance, March 31, 1965.....	<u>\$ 1,920,000</u>

160. *Undisbursed balances of appropriations to special accounts.* The following is a listing of the balances included in this item in the Statement of Assets and Liabilities, compared with the corresponding balances at the close of the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Colombo Plan Fund.....	\$ 85,325,000	\$ 84,451,000	\$ —
International Development Assistance Fund.....	—	—	82,245,000
Railway Grade Crossing Fund.....	26,703,000	17,649,000	6,865,000
Centennial of Confederation Fund.....	1,000,000	3,000,000	6,024,000
National Capital Fund.....	6,776,000	6,426,000	426,000
Other balances.....	148,000	75,000	143,000
	<u>\$ 119,952,000</u>	<u>\$ 111,601,000</u>	<u>\$ 95,703,000</u>

During the year the Colombo Plan Fund was charged with expenditures amounting to \$32,761,000. The unexpended balance of \$51,690,000 on March 31, 1965 was transferred to a special account to be known as the "International Development Assistance Fund" established under authority of a dollar vote of the Department of External Affairs, Vote 33d, Appropriation Act No. 2, 1965. Under the same authority, the special account was credited with the unexpended balance of \$30,555,000 in the sub-vote for International Development Assistance within Department of External Affairs Vote 35 of the Main Estimates, 1964-65.

Amounts of \$5,000,000, provided under section 265 of the Railway Act, R.S., c. 234, and \$100,000, provided under Department of Transport Vote 82, were credited to the account for the Railway Grade Crossing Fund during 1964-65. Expenditures totalling \$15,884,000 were incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations and reflective markings on the sides of railway cars.

During 1964-65 an amount of \$4,000,000 provided by Privy Council Votes 30 and 30a, was credited to the Centennial of Confederation Fund. Expenditures of \$976,000 were charged to the account.

During the year an amount of \$4,500,000 provided by Department of Public Works Vote 65 was credited to the account for the National Capital Fund, and the account was charged with payments totalling \$10,500,000 to the National Capital Commission to finance the cost of capital projects approved by the Governor in Council.

161. *Deferred credits.* The following is an analysis of this item at the close of the 1964-65 fiscal year and the two previous years:

	March 31, 1963	March 31, 1964	March 31, 1965
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946.....	\$ 44,174,000	\$ 44,174,000	\$ 63,761,000
Deferred interest on loans to The St. Lawrence Seaway Authority.....	49,388,000	63,761,000	38,724,000
Equity in agency account of Crown Assets Disposal Corporation.....	5,884,000	5,173,000	5,522,000
Credits arising from the recording of agreements of sale of Crown assets...	6,743,000	4,702,000	2,991,000
Other balances.....	1,550,000	1,637,000	2,210,000
	<u>\$ 107,739,000</u>	<u>\$ 119,447,000</u>	<u>\$ 113,208,000</u>

The increase in the item "Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946" resulted from the Government of the United Kingdom exercising its option, for the first time since 1957, to defer the annual instalment of principal and interest on the loans.

During the year The St. Lawrence Seaway Authority paid \$43,062,000 on account of interest previously deferred, while payment of interest for the year 1964, amounting to \$18,025,000, was in turn deferred. This deferred interest is payable by the Authority over a 43-year period commencing in 1967, along with repayments of principal.

162. *Suspense accounts.* There was no appreciable change in this item on the liabilities side of the Statement during the year ended March 31, 1965. The year-end figure of \$5,532,000 included balances of \$1,257,000 for the Unclaimed Cheques Account, \$617,000 for the Hospital Insurance Outside Canada Account and \$566,000 for the National Defence Replacement of Materiel Account. In 1964-65, the proceeds of sales of materiel to other countries, totalling \$61,000, were credited to the Replacement of Materiel Account pursuant to section 11 of the National Defence Act, while \$506,000 for procurement of replacement materiel was charged to the Account.

163. *Unmatured debt.* A summary of the unmaturing debt outstanding at March 31, 1965, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1963	March 31, 1964	March 31, 1965
Bonds			
Payable in Canada.....	\$ 15,385,847,000	\$ 16,133,692,000	\$ 16,461,809,000
Payable in London.....	34,584,000	—	—
Payable in New York.....	376,405,000	376,405,000	376,405,000
	15,796,836,000	16,510,097,000	16,838,214,000
Treasury bills (not exceeding 180 days).....	2,165,000,000	2,230,000,000	2,140,000,000
	<u>\$ 17,961,836,000</u>	<u>\$ 18,740,097,000</u>	<u>\$ 18,978,214,000</u>

The increase of \$328,117,000 in the bond debt payable in Canada is the amount by which new borrowings of \$3,279 million during the year exceeded redemptions of \$2,951 million of prior issues. Canada savings bonds accounted for \$1,011 million of the new borrowings and \$551 million of the redemptions.

Issues payable in New York were valued at the official parity rate of \$1 U.S. = \$1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount shown for "Unmatured debt" along with issues maturing at later dates. In addition to treasury bills of \$2,140 million shown in the above summary as maturing within 180 days, the following issues, all payable in Canada, fall due within the current fiscal year:

Canada Savings Bonds 1953, due November 1, 1965.....	\$ 45,266,000
Loan of 1958-65, due September 1, 1965.....	449,891,000
Loan of 1962-65, due April 1, 1965.....	110,000,000
Loan of 1963-65, due April 1, 1965.....	90,000,000
Loan of 1963-66, due February 1, 1966.....	225,000,000
Loan of 1964-65, due July 1, 1965.....	400,000,000
Loan of 1964-65, due December 1, 1965.....	325,000,000
Loan of 1964-66, due February 1, 1966.....	105,000,000
	<u>\$ 1,750,157,000</u>

Net Debt

164. With the Liabilities amounting to \$26,573,426,000 (paragraph 156) and the Assets to \$11,068,953,000 (paragraph 144), the net debt at March 31, 1965 was \$15,504,473,000. The following is an analysis of the Net Debt Account for the year:

Balance, April 1, 1964.....	\$ 15,070,149,000
Add—Deficit for the year	
Expenditure.....	\$ 7,218,275,000
Revenue.....	7,180,310,000
	<hr/>
	37,965,000
Write-off of unamortized portion of the actuarial deficiency in the Public Service Superannuation Account.....	396,217,000
Write-off of Cheque Adjustment Suspense Account.	142,000
	<hr/>
Balance, March 31, 1965.....	<u>\$ 15,504,473,000</u>

Contingent Liabilities

165. A note on the Liabilities side of the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities outstanding at the year-end and refers to page 7.83 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the main contingent liabilities with determinate amounts outstanding at March 31, 1965 in comparison with the corresponding amounts at the close of the two previous years:

	<u>March 31, 1963</u>	<u>March 31, 1964</u>	<u>March 31, 1965</u>
Insured loans made by approved lenders under the National Housing Act, 1954.	\$ 4,123,000,000	\$ 4,499,000,000	\$ 4,949,864,000
Railway securities guaranteed as to prin- cipal and interest.....	1,381,361,000	1,377,611,000	1,368,298,000
Deposits maintained by chartered banks in Bank of Canada.....	741,870,000	840,037,000	897,218,000
Guarantees under Export Credits Insur- ance Act, Part I	333,646,000	378,096,000	468,644,000
Loans made by chartered banks to Cana- dian Wheat Board.....	80,331,000	151,313,000	169,770,000
Other contingent liabilities of determin- ate amounts.....	73,998,000	82,217,000	112,248,000
	<hr/>	<hr/>	<hr/>
	<u>\$ 6,734,206,000</u>	<u>\$ 7,328,274,000</u>	<u>\$ 7,966,042,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to the 1954 Act.

Comments on Assets and Liabilities

166. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

167. The Statement of Assets and Liabilities as at March 31, 1965 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditures as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. This practice has been the subject of comments in previous Reports and has been considered by the Public Accounts Committee which holds the view that outlays on properties in the Greenbelt are expenditures of the Crown rather than income-producing investments. The Committee has on two occasions requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. This is one of the observations of the Standing Committee on Public Accounts which has not yet been dealt with by Executive action (see Appendix 1, item 27).

As is pointed out in paragraph 55 of this Report, the funds required by the Canadian Broadcasting Corporation to meet its capital expenditures during the year ended March 31, 1965 were provided by means of loans from the Government instead of grants as in the past.

The explanation quoted above means that the costs of government buildings and other public works undertaken by government departments are charged to expenditure at the time of acquisition or construction because the departments are dependent on public revenues for their capital needs. The two Crown corporations referred to above are also dependent on public revenues for their capital needs.

168. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year, is given in the several departmental sections of Volume II of the Public Accounts.

The Public Accounts Committee in its Sixth Report 1964 expressed agreement with our observation that it would be more informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts each year. As a result, a summary similar to the following is included for the first time in Volume I of the Public Accounts for 1964-65:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture.....	\$ 440,218	\$ 849,636	\$ 21,258	\$ 1,311,112
Citizenship and Immigration.....	196,564	442,968	57,733	697,265
Defence Production.....	4,270	1,768	259,329	265,367
External Affairs.....	333,210	482,231	14,700	830,141
Finance.....	21,198	7,816	59,922	88,936
Justice.....	134,194	—	222	134,416
Labour.....	120	—	17,465	17,585
Unemployment Insurance				
Commission.....	54,798	127	469	55,394
Fund.....	4,873,774*	—	—	4,873,774
Mines and Technical Surveys.....	61,222	15,048	595	76,865
National Defence.....	4,514,477	2,502,328	88,650	7,105,455
National Health and Welfare.....	1,328,976	281,547	72,710	1,683,233
National Research Council.....	108,535	12,201	561	121,297
National Revenue—				
Customs and Excise Division....	13,338,855*	—	1,241,672*	14,580,527
Taxation Division.....	175,121,388*	—	45,137,672*	220,259,060
Northern Affairs and National				
Resources.....	187,342	412,228	4,075	603,645
Public Printing and Stationery....	129,766	2,035	—	131,801
Public Works.....	627,415	484,939	10,959	1,123,313
Royal Canadian Mounted Police...	385,548	5,913	2,003	393,464
Trade and Commerce.....	134,013	9,069	11,566	154,648
Transport.....	3,169,176	600,885	802	3,770,863
Veterans Affairs.....	3,784,409	2,038,803	369,096	6,192,308
Other departments.....	29,956	11,157	9,103	50,216
	<u>\$ 208,979,424</u>	<u>\$ 8,160,699</u>	<u>\$ 47,380,562</u>	<u>\$ 264,520,685</u>

* These amounts relate to both current and previous years.

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The accounts receivable totals shown in the above table were the amounts remaining after certain uncollectable debts

- (a) of \$1,000 or less had been deleted from the accounts during the year under authority of section 23 of the Financial Administration Act, and
- (b) in excess of \$1,000 had been written off under authority of Department of Finance Vote 22d of Appropriation Act No. 2, 1965.

A summary of these deletions by departments is as follows:

Department	Items	Deleted under authority of		Total deleted
		Financial Administra- tion Act, sec. 23	Finance Vote 22d	
Agriculture.....	440	\$ 5,125	\$ 14,791	\$ 19,916
Citizenship and Immigration.....	1,128	172,972	88,174	261,146
Mines and Technical Surveys.....	35	189	148,759	148,948
National Defence.....	460	8,123	175,568	183,691
National Health and Welfare.....	307	82,473	29,193	111,666
National Revenue—				
Customs and Excise Division.....	156	2,997	—	2,997
Taxation Division	957	299,827	12,070	311,897
Northern Affairs and National Resources.....	47	7,934	—	7,934
Public Works	98	13,133	—	13,133
Royal Canadian Mounted Police.....	38	8,599	—	8,599
Veterans Affairs.....	879	87,983	175,430	263,413
Other departments.....	145	2,998	—	2,998
	4,690	\$ 692,353	\$ 643,985	\$ 1,336,338

We have drawn attention in the past several years to the fact that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

The Public Accounts Committee expressed concern over this situation and in its Sixth Report 1964 (see Appendix 1, item 28) suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded and that an accounts receivable control system is instituted. The Committee also stated that collection procedures must be tightened up and firmly enforced.

The Treasury Board is presently developing a policy on revenue control designed to eliminate the conditions referred to by the Auditor General and the Public Accounts Committee and also by the Royal Commission on Government Organization.

169. *Accounts receivable—Department of National Revenue.* It will be noted from the table in paragraph 168 that the accounts due to the Department of National Revenue at the close of the year accounted for \$235 million of the overall total of \$265 million owing to the Crown.

With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department of National Revenue, analyses have been prepared showing the nature and amounts of the unpaid accounts.

CUSTOMS AND EXCISE DIVISION.—The following is a summary of the accounts receivable of this Division at March 31, 1965 compared with the preceding year:

	Year ended March 31	
	1965	1964
Collectable—		
Excise tax.....	\$ 11,381,000	\$ 9,266,000
Customs seizures.....	531,000	197,000
Duties and taxes on importations.....	1,227,000	134,000
Investigations.....	197,000	22,000
Salary overpayments.....	2,000	1,000
	13,338,000	9,620,000
Uncollectable—		
Excise tax.....	1,022,000	591,000
Customs seizures.....	47,000	29,000
Duties and taxes on importations.....	166,000	165,000
Investigations.....	3,000	—
Salary overpayments.....	—	2,000
Sundry.....	4,000	4,000
	1,242,000	791,000
	\$ 14,580,000	\$ 10,411,000

In our 1964 Report we stated that the figures for that year did not include (a) certain sales tax assessments, (b) customs amending entries unpaid for less than six months, and (c) inactive accounts of the Investigations Branch. At March 31, 1965 these amounts have been included and account in large measure for the increase of \$4.2 million shown in the above statement.

The Customs and Excise Division is preparing to extend the system of accounts receivable control accounts to include all amounts receivable by the Department. As yet it is not possible to report upon the age of the accounts as the records are maintained at the district level and the information has not been provided to head office. We understand that this information will be available at head office next year.

During the year 156 items amounting to \$2,997 were written off with Executive approval under authority of section 23 of the Financial Administration Act.

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TAXATION DIVISION.—At March 31, 1965 the following amounts were recorded as accounts receivable:

Classification	No. of accounts	Amount
Income tax—		
Individuals.....	127,615	\$ 121,659,000
Corporations.....	5,551	66,907,000
Tax deductions and non-residents.....	14,241	11,065,000
Deferred tax.....	—	6,238,000
		205,869,000
Provincial income tax.....	—	42,000
Estate tax and succession duty.....	931	14,345,000
Sundry salary overpayments.....	—	3,000
		<u>\$ 220,259,000</u>

Only \$43 million, or 20% of the total of \$220 million shown above, consists of current collectable accounts. The remainder, \$177 million (114,196 accounts), had not been collected for the following reasons:

	March 31 1965	February 29 1964
1. Under appeal.....	\$ 75,102,000	\$ 67,778,000
There were 943 accounts under appeal at March 31, 1965, of which 310 were secured and 51 partially secured for the reason that no collection arrangements were possible. Section 51 of the Income Tax Act provides that "the taxpayer shall, within 30 days from the day of mailing of the notice of assessment, pay to the Receiver General of Canada any part of the assessed tax, interest and penalties then remaining unpaid, whether or not an objection to or appeal from the assessment is outstanding".		
2. Uncollectable.....	45,095,000	25,321,000
There were 19,801 uncollectable accounts at March 31, 1965. The increase of approximately \$20 million in uncollectable accounts, many of them in amounts over \$1,000, in the fiscal year 1964-65, results from a detailed systematic review of all accounts considered but not classified as uncollectable. Uncollectable amounts in excess of \$1,000 may be written off only with the sanction of Parliament and no such approval for tax accounts has been sought by the Division since 1961-62. However, two items representing salary overpayments and amounting to \$12,070 were		

	March 31 1965	February 29 1964
deleted under parliamentary authority by Department of Finance Vote 22d. Amounts of \$1,000 or less may be written off with Executive approval and 955 accounts amounting to \$299,827 were written off during the year.		
3. Current assessments.....	30,719,000	21,475,000
Accounts that were under 90 days old at March 31, 1965 number 76,384 and represent recent assessments and re-assessments, the bulk of which are not due until April 30, 1965.		
4. Duplicate assessments (estimated).....	5,000,000	8,000,000
When deemed necessary, duplicate assessments are raised against individuals or corporations with which the originally assessed taxpayer may be associated or to which he might transfer assets.		
5. Temporarily uncollectable.....	14,951,000	—
There are 17,068 accounts in this category and they represent taxpayers who are unemployed, in jail, non-residents expected to return to Canada, operators of seasonal businesses and their employees, self-employed, receiving foreign income who at present are immune to our collection process, or who are unable to pay now but whose financial circumstances are likely to improve.		
6. Deferred tax.....	6,238,000	6,586,000
Deferred tax is collectable only on the death of a taxpayer, in accordance with section 13 of the Income War Tax Act, 1943-44, c. 14. This section gave the taxpayer the option of paying part of the 1942 tax in 1943 or thereafter at a discount or having his executors pay it from his estate.		
7. Provincial income tax.....	42,000	42,000
This amount, which is now regarded as uncollectable, represents the balance of 1939-40 provincial income tax arrears for Quebec and Ontario transferred to the Federal Government for collection under authority of the Dominion-Provincial Taxation Agreement Act 1942, c. 13.		
	<u>\$ 177,147,000</u>	<u>\$ 129,202,000</u>

In our opinion analyses or details of this nature relating to the larger groupings of debts due to the Crown, should be prepared by the departments responsible and made available to Parliament each year, through the medium of the Public Accounts or in the departmental annual reports.

170. *Cash on deposit in chartered banks.* Included in the item "Current assets" is an amount of \$682 million on deposit in bank accounts. Of this amount \$634 million was on deposit in the chartered banks of Canada, \$31 million in the Bank of Canada and \$17 million in banks in London, New York, Paris and Bonn.

The balances on deposit in foreign bank accounts are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, R.S., c. 13, does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada in excess of an aggregate of \$100 million earn interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, calculations being based on the minimum weekly balances. No interest was received on the aggregate of \$100 million which was kept on deposit in the chartered banks throughout the year 1964-65. (See also paragraph 62.)

171. *Agricultural Commodities Stabilization Account.* The operations of the Agricultural Stabilization Board during the year 1964-65 resulted in a loss of \$61,500,000. This loss, together with a balance of loss of \$2,555,000 brought forward from the previous year, was met to the extent of \$57,118,000 by funds provided by Department of Agriculture Vote 80d, Appropriation Act No. 2, 1965, and to the extent of \$5,619,000 by major services provided without charge by government departments (see paragraph 213). The balance of the loss amounting to \$1,318,000 remains as a charge to the Agricultural Commodities Stabilization Account and is included in the balance of \$23,152,000 at March 31, 1965. This amount appears as a current asset item (see paragraph 145) although to the extent of \$1,318,000 it represents a loss which must eventually be written off to expenditure (see also paragraph 140).

172. *Sinking fund and other investments held for retirement of unmatured debt.* On August 10, 1964 the Minister of Finance purchased \$4.1 million of 2 $\frac{3}{4}$ % Canada bonds payable in New York and due September 1, 1974 and \$1.8 million of a similar issue due on September 15, 1975. Interest earned on these bonds amounting to \$101,000 was credited to this asset account in error instead of being credited to revenue. Furthermore, an amortization adjustment of \$57,000 representing the portion of the discount on these bonds applicable to the year was not made. Consequently, this asset item is under-valued by \$158,000 and the Department of Finance revenue item "Return on Investments" is understated by a similar amount.

173. *Deferred charges—Unamortized portions of actuarial deficiencies.* The balances in these accounts represent the remaining portions of the actuarial deficiencies in the Canadian Forces Superannuation Account \$53,762,000, the Public Service Superannuation

Account \$39,921,000, and the Royal Canadian Mounted Police Superannuation Account \$4,153,000, after one-fifth of the deficiencies which arose when general pay increases were authorized had been charged to expenditure in 1964-65 (see paragraph 63).

174. *Suspense accounts.* Reference was made under the heading "Cheque Adjustment Suspense" in paragraph 124 of last year's Report to a balance of \$141,392 representing unidentified net differences which were encountered between 1942-43 and 1961-62 in reconciling paid cheques with the payments made to the banks. In 1964-65 this balance was written off to net debt under authority of Department of Finance Vote 27d, Appropriation Act No. 2, 1965.

175. *Public Service Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$169,457,000 representing the total of: the actuarial deficiency in the Account as of December 31, 1962 with interest to December 31, 1964, amounting to \$119,556,000; the actuarial deficiency arising from salary increases authorized in 1963-64 with interest to December 31, 1964, amounting to \$30,506,000; and the actuarial deficiency of \$19,395,000 arising from salary increases authorized in 1964-65. As stated in paragraph 63, the deficiency of \$119,556,000 was written off to net debt during the year and one-fifth of the deficiency of \$49,901,000 resulting from salary increases authorized in 1963-64 and 1964-65 was charged to expenditure, leaving a balance of \$39,921,000 in the deferred charge account to be written off to expenditure over the next four years.

176. *Canadian Forces Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$67,202,000 representing the amount of the actuarial deficiency in the Account arising from pay increases authorized for members of the Forces during the year. As stated in paragraph 63, one-fifth of the deficiency was charged to expenditure, leaving a balance of \$53,762,000 in the deferred charge account to be written off to expenditure over the next four years.

177. *Royal Canadian Mounted Police Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$5,192,000 representing the amount of the actuarial deficiency in the Account arising from pay increases authorized for members of the Force during the year. As stated in paragraph 63, one-fifth of the deficiency was charged to expenditure, leaving a balance of \$4,153,000 in the deferred charge account to be written off to expenditure over the next four years.

Crown Corporations

178. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus containing such information as, in the case

of a company incorporated under the Companies Act (Canada Corporations Act with effect from July 1, 1965), is required to be laid before the company by the directors at an annual meeting.

179. Section 87 of the Financial Administration Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation, and the report is required to state whether, in his opinion:

- (a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

180. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

181. Crown corporations classed as "agency" or "proprietary" corporations are listed in Schedules "C" and "D" to the Financial Administration Act. Those in the former class are responsible, in general, for the management of procurement, construction, service and disposal activities on behalf of the Crown. Those in the latter class are responsible for the management of lending or financial operations, and for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

182. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1965:

Corporation	Class	Reporting Minister
Atomic Energy of Canada Limited.....	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Canadian Arsenals Limited.....	Agency	Industry
Canadian Broadcasting Corporation.....	Proprietary	Secretary of State
Canadian Commercial Corporation.....	Agency	Industry
Canadian Corporation for the 1967 World Exhibition.....		Trade and Commerce
Canadian National (West Indies) Steamships, Limited.....	Agency	Transport
Canadian Overseas Telecommunication Corporation.....	Proprietary	Transport
Canadian Patents and Development Limited...	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Centennial Commission.....	Agency	Secretary of State
Cornwall International Bridge Company Limited.....	Proprietary	Transport
Crown Assets Disposal Corporation.....	Agency	Industry
Defence Construction (1951) Limited.....	Agency	National Defence
Eldorado Aviation Limited.....	Proprietary	Trade and Commerce
Eldorado Mining and Refining Limited.....	Proprietary	Trade and Commerce
Export Credits Insurance Corporation.....	Proprietary	Trade and Commerce
Farm Credit Corporation.....	Proprietary	Agriculture
The National Battlefields Commission.....	Agency	Northern Affairs and National Resources
National Capital Commission.....	Agency	Public Works
National Harbours Board.....	Agency	Transport
Northern Canada Power Commission.....	Agency	Northern Affairs and National Resources
Northern Ontario Pipe Line Crown Corporation.		Trade and Commerce
Northern Transportation Company Limited....	Proprietary	Trade and Commerce
Park Steamship Company Limited.....	Agency	Transport
Polymer Corporation Limited and subsidiary companies.....	Proprietary	Industry
The St. Lawrence Seaway Authority.....	Proprietary	Transport
The Seaway International Bridge Corporation, Ltd.....	Proprietary	Transport

183. Since the Auditor General has not been appointed the auditor of the following Crown corporations and public instrumentalities their accounts were not examined by him during the year:

Corporation or Instrumentality	Class	Reporting Minister
Air Canada.....	Proprietary	Transport
Bank of Canada.....		Finance
Canadian National Railways.....	Proprietary	Transport
The Canadian National Railways Securities Trust.....	Proprietary	Transport
The Canadian Wheat Board.....		Trade and Commerce
Central Mortgage and Housing Corporation....	Proprietary	Citizenship and Immigration
Industrial Development Bank.....		Finance

In its Eighth Report 1964 (see Appendix 1, item 39) the Public Accounts Committee recommended that the Auditor General be appointed the auditor or the joint auditor of these corporations or instrumentalities.

184. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case, an introductory comment describes briefly the origin of the corporation and the nature of its activity, and this is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

185. *Atomic Energy of Canada Limited*. This Company was incorporated in 1955 under the Companies Act, 1934, pursuant to authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the Company is in Ottawa. Nuclear reactors and major research and development laboratories are maintained at Chalk River, Ontario. The Whiteshell nuclear research establishment, situated 65 miles north of Winnipeg, is in operation and although still incomplete, complements the Chalk River nuclear laboratories. The Company has constructed some 268 housing units, an apartment building and a shopping centre in a new town called "Pinawa" to accommodate the employees and their families at the Whiteshell establishment. The Commercial Products division in Ottawa is responsible for the processing of radioisotopes produced in the Company's reactors, the designing of equipment for the use of radioactive materials, and the marketing of products and equipment on a commercial basis. The Power Projects division, located in Toronto, is responsible for the engineering, development, construction and management of nuclear power generating projects. A nuclear power demonstration plant was constructed at Rolphton, Ontario, to produce steam for sale to the Hydro-Electric Power Commission of Ontario to generate electric power. The Company, in co-operation with the Hydro-Electric Power Commission of Ontario, is building Canada's first full-scale nuclear power generating station at Douglas Point, Ontario. It is expected that the station will be commissioned in 1966.

The Company's accumulated costs of research facilities at Chalk River, Whiteshell and Rolphton, charged to research expense and financed by parliamentary appropriations, amounted to \$177,086,000 at March 31, 1965. The cost of the Douglas Point generating station, amounting to \$44,732,000 at the year-end, is being financed by Government of Canada loans.

The Crown's equity in the Company at March 31, 1965 totalled \$71,346,000 comprising: loans for housing, \$8,840,000; loans for construction of Douglas Point generating station, \$44,994,000; capital stock, \$15,000,000; and retained earnings, \$2,512,000.

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1965	1964
<i>Research Program—Operating</i>		
Expense.....	\$ 38,445,000	\$ 34,063,000
Income: Gross income from housing accommodation, hospitals, transportation, sales of steam, etc.....	3,594,000	2,605,000
Excess of expense over income.....	<u>\$ 34,851,000</u>	<u>\$ 31,458,000</u>
Provided for by:		
Parliamentary appropriation.....	\$ 34,861,000	\$ 31,469,000
Less: Unexpended balance refundable to Government of Canada.....	10,000	11,000
	<u>\$ 34,851,000</u>	<u>\$ 31,458,000</u>
<i>Research Program—Capital</i>		
Expense.....	<u>\$ 17,327,000</u>	<u>\$ 14,219,000</u>
Provided for by:		
Parliamentary appropriation.....	\$ 10,307,000	\$ 13,466,000
Retained earnings.....	7,020,000	753,000
	<u>\$ 17,327,000</u>	<u>\$ 14,219,000</u>
<i>Commercial Operations</i>		
Income.....	<u>\$ 7,416,000</u>	<u>\$ 4,403,000</u>
Expense:		
Cost of sales.....	3,680,000	2,138,000
Research, selling and administrative.....	3,074,000	2,151,000
	<u>6,754,000</u>	<u>4,289,000</u>
Excess of income over expense.....	<u>\$ 662,000</u>	<u>\$ 114,000</u>

The increase of \$4,382,000 in research operating expense was due in part to increases in salaries and wages including welfare benefits, \$1,972,000, and professional and special services, \$261,000. In addition, there was no counterpart during the year for revenue from

the NRU reactor amounting to \$1,239,000 which was applied as a reduction of expense in 1963-64. The increases in personnel of 133 at the Whiteshell establishment, 67 at the Power Projects division, and 61 at Chalk River and head office, together with normal increases in rates of remuneration, account for the increase in salaries and wages. Increased activities at the Whiteshell establishment and the Power Projects division largely account for the increased costs with respect to professional services.

186. *Canadian Arsenals Limited*. This Company, with its head office in Ottawa, was incorporated in 1945 under the Companies Act, 1934, pursuant to authority contained in the Department of Reconstruction Act, 1944, c. 18. The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations may be expanded on short notice.

A reduction in operations has taken place in the last ten years. The Company's sales reached a peak in 1954-55 when Korean war contracts were still being completed. Except for a minor increase in 1961-62, there has been a steady decline in sales from \$80 million in 1954-55 to \$7.5 million in 1964-65. Over the years, the Company has been the custodian of Crown-owned plants representing an investment of over \$100 million. During 1964-65, the Government sold the Explosives division plant, Valleyfield, Quebec, (see paragraph 59) and transferred the land and buildings of the Instrument and Electronics division, Scarborough, Ontario, to the Department of Public Works. At March 31, 1965 the Company was the custodian of seven plants, the total cost of which was \$70 million, but only four plants were in operation.

At March 31, 1965 the Company's operations were financed by working capital advances of \$7,500,000 from the Minister of Finance. Advances from the Defence Production Revolving Fund, amounting to \$1,250,000, were repaid during the year.

The following is a comparative summary of the results of operations for the last two years:

	Year ended March 31	
	1965	1964
Income—		
Sales.....	\$ 7,534,000	\$ 10,051,000
Miscellaneous.....	590,000	651,000
	<u>8,124,000</u>	<u>10,702,000</u>
Expense—		
Cost of sales, including indirect labour and other overhead expenses absorbed.....	6,897,000	9,102,000
Indirect labour and other overhead expenses not absorbed in cost of sales.....	4,226,000	4,763,000
Plant shut-down costs.....	1,029,000	362,000
Administrative expenses.....	449,000	733,000
	<u>12,601,000</u>	<u>14,960,000</u>
Excess of expense over income.....	\$ 4,477,000	\$ 4,258,000

The \$4,477,000 required to meet the excess of expense over income was provided by a parliamentary appropriation through the Department of Defence Production.

Indirect labour and overhead expenses for the year totalled \$6,900,000, compared with \$8,688,000 for the previous year, of which \$2,674,000 was included in cost of sales. It has been the Company's practice to apply overhead expenses on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$4,226,000, is described in the above summary as indirect labour and other overhead expenses not absorbed in cost of sales.

Plant shut-down costs of \$1,029,000 include the write-down of inventories, termination leave and other costs with respect to the sale of the explosives plant at Valleyfield, Quebec; expenditures incurred in the transfer and disposal of machinery and equipment and other costs in closing down the instrument and electronics plant at Scarborough, Ontario; and costs of transferring small ammunition and quick firing case line facilities to other plants from the Dominion Arsenal plant at Quebec City, preparatory to its closing.

The Company had \$207,000 on deposit with an insurance company at March 31, 1965 in respect of an insurance policy which provides life, medical, surgical and other insurance benefits to employees and their dependents. The amount represents the excess of premiums over charges for claims incurred plus administrative fees charged by the insurance company. It is available for possible catastrophe, excessive claims or additional benefits without increase in premiums. During the year the amount on deposit was deemed to exceed the contingency reserve requirements. Accordingly, on December 1, 1964 the sum of \$200,000 was used to pay for a single premium life insurance policy for participants in the plan who have been in the Company's service for at least 77 months. Employees' premiums and the Company's matching contribution paid in during the year amounted to \$149,000, and interest amounting to \$19,000, calculated at approximately 5%, was credited during the year by the insurance company.

Inventories on hand at the year-end were less by \$2,370,000 or 56.6% than their level at March 31, 1964. The inventory reduction included write-offs of \$345,000 largely due to the closing of the plants referred to previously.

187. *Canadian Broadcasting Corporation.* This Corporation, established by the Canadian Broadcasting Act, 1936, c. 24, superseded by the Broadcasting Act, 1958, c. 22, operates the national television and radio broadcasting services and also administers an international shortwave service on behalf of the Government of Canada. The head office of the Corporation is in Ottawa, with regional offices in St. John's, Halifax, Montreal, Ottawa, Toronto, Winnipeg, Edmonton and Vancouver and an engineering headquarters in Montreal.

In previous years, the Corporation derived its funds for both capital and operating requirements in excess of advertising revenue from grants provided by parliamentary appropriations. However, funds for its capital requirements for 1964-65 were provided by loans of \$14,250,000 repayable in equal annual instalments over 20 years with interest payable at rates of $5\frac{1}{4}\%$ and $5\frac{3}{8}\%$ per annum (see paragraph 55).

AUDITOR GENERAL'S REPORT

At March 31, 1965 the Crown's equity in the Corporation amounted to \$55,190,000 represented by capital assets at cost of \$81,566,000, less accumulated depreciation of \$36,209,000, and working capital of \$9,833,000 (including \$833,000 unexpended balance of Government of Canada loans to finance the acquisition of capital assets).

The following is a comparative summary of the results of operations for the last two years:

	Year ended March 31	
	1965	1964
Expense—		
Cost of production and distribution:		
Cost of programs.....	\$ 79,619,000	\$ 74,388,000
Network distribution.....	10,727,000	10,428,000
Station transmission.....	5,004,000	4,407,000
Payments to private stations.....	4,752,000	4,927,000
Commissions to agencies and networks.....	3,719,000	3,805,000
	103,821,000	97,955,000
Operational supervision and services.....	10,317,000	9,067,000
Selling and general administration.....	8,459,000	7,812,000
Emergency broadcasting.....	869,000	624,000
Interest on loans to finance the acquisition of capital assets....	374,000	—
Total expense including depreciation.....	123,840,000	115,458,000
Income—		
Advertising revenue, etc.....	33,449,000	33,010,000
Net expense.....	\$ 90,391,000	\$ 82,448,000

The parliamentary grant "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service" for the year of \$85,869,000 comprising net expense of \$90,391,000 shown above, less depreciation of \$4,522,000 charged for cost ascertainment purposes, was provided by the Government of Canada under authority of Canadian Broadcasting Corporation Vote 1, Appropriation Act No. 10, 1964.

The net operating amount required by the Corporation increased by \$7,492,000 from \$78,377,000 for the year ended March 31, 1964 to \$85,869,000 for the year ended March 31, 1965, an increase of 9.5% compared with \$5,722,000 or 7.9% in the previous year. The increase in expense experienced in practically all departments was attributable to many factors. Salaries and wages increased by \$4,314,000 mainly due to the implementation of wage increment provisions of collective bargaining agreements, salary increases to supervisory staff and the engaging of an additional 284 employees primarily to staff two new television stations and one new radio station. Other increases were attributed to additional television broadcasting hours as a result of the addition of the two new television stations, a general rise in radio AM and FM program broadcasting costs and in costs due to expanded microwave and line facilities for both radio and television. The increase of \$439,000 in income is accounted for by a rise of \$864,000 in television advertising offset by a decline of \$384,000 in radio advertising and \$41,000 in other income.

The overtime content of salaries and wages was \$3,398,000 compared with \$3,202,000 in the previous year. Cost of programs amounting to \$79,619,000 includes payments to employees for scheduled hours during daily or weekly tours of duty which are in excess of the actual hours of attendance, which we estimate amounted to \$450,000 during the year (see paragraph 56). In addition, an estimated \$150,000 was paid to employees as premium pay for elapsed time between assigned and actual meal periods and for turn-around periods, being the difference between elapsed time and an established minimum period of 12 hours from the end of one tour of duty to the commencement of the next.

The Statement of Operations segregates Cost of Production and Distribution under the headings of "Programs without Advertising, \$71,504,000" and "Programs with Advertising, \$32,317,000". The former comprises two types of programs, those which are available for advertising but which have not attracted advertising revenue, and programs of a public service nature which, because of Corporation policy, are not available to prospective advertisers. A segregation of the total cost of "Programs without Advertising" under these headings follows:

	Programs Available for Advertising	News and Public Service Programs	Total
Cost of programs.....	\$ 23,001,000	\$ 36,214,000	\$ 59,215,000
Network distribution.....	2,606,000	5,827,000	8,433,000
Station transmission.....	1,328,000	2,528,000	3,856,000
	<u>\$ 26,935,000</u>	<u>\$ 44,569,000</u>	<u>\$ 71,504,000</u>

The total cost of production and distribution of programs with advertising potential was therefore \$59,252,000, comprising the \$26,935,000 shown above and the cost of programs with advertising amounting to \$32,317,000. As gross advertising revenue amounted to only \$32,872,000 the difference of \$26,380,000 was financed by the parliamentary grant. The recommendation of the Public Accounts Committee in its Fifth Report 1964 that this information be disclosed more clearly in the Corporation's annual Statement of Operations is considered to have been implemented by means of an explanatory footnote to its financial statements.

The following asset balances at March 31, 1965 are compared with the corresponding balances at March 31, 1964:

	March 31	
	1965	1964
Programs completed and in process of production.....	\$ 5,249,000	\$ 4,792,000
Film and script rights.....	1,845,000	1,771,000
Engineering and production supplies.....	1,732,000	1,652,000
	<u>\$ 8,826,000</u>	<u>\$ 8,215,000</u>

Programs completed and in process of production are programs recorded in advance of broadcast on videotape and on film for the English and French networks and represented an increase of \$457,000 over the preceding year.

The balances shown in the above tabulation are after giving effect to the following write-offs:

Programs completed and in process of production—abandoned and cancelled because of technical deficiencies, scheduling difficulties or pre-emptions.....	\$ 338,000
Film rights—expired films not telecast because of unsuitability of program content, technical deficiencies or pre-emptions.....	85,000
Script rights—expired or unsuitable.....	90,000
Engineering and production supplies—unusable and obsolete.....	26,000
	<u>\$ 539,000</u>

The comparable write-offs in the previous year totalled \$232,000.

Additions of \$13,438,000 to fixed assets were financed to the extent of \$13,417,000 out of the loans of \$14,250,000 previously referred to and to the extent of \$21,000 from proceeds of sale of assets. Major capital expenditures included technical equipment, \$3,473,000; transmitters, towers and antennae, \$3,137,000; land for Place Radio-Canada, Montreal, \$2,000,000; transmitter buildings, radio studios, etc., \$1,913,000 and construction in progress, \$1,814,000, mainly for Place Radio-Canada and studios and offices in St. John's and Quebec City.

Capital assets in the amount of \$81,566,000 include the sum of \$8,942,000 expended during the last six years in connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. The present estimate of the cost of future consolidation of facilities for the Corporation is \$127,842,000, shown below by locations, of which, subject to the provision of funds by Parliament, approximately \$4,366,000 will be expended during the year ending March 31, 1966 and \$123,476,000 during subsequent years:

Montreal.....	\$ 56,726,000
Toronto.....	39,194,000
Prairies.....	10,000,000
British Columbia.....	8,700,000
Maritimes.....	7,000,000
Ottawa.....	6,222,000
	<u>\$ 127,842,000</u>

In our reports to management for the last three years we have referred to the Corporation's physical inventory of its capital assets and the uncompleted reconciliation with the accounting records. This undertaking, begun in 1962, is now scheduled for completion by the Corporation in 1966.

We also examined the accounts and financial statements of the CBC Pension Board of Trustees and reported separately to the Trustees under date of June 4, 1965. An actuarial examination of the CBC Pension Plan as at March 31, 1964 indicated a possible actuarial deficiency in respect of future benefits payable of \$6,682,000 or about 6.7% of the \$100 million actuarial value. The Trustees recommended to the Corporation that no action be taken until the further analysis being made in June 1965 was completed and the effect of integration with the Canada Pension Plan was determined.

In our previous Reports we have made reference to the need for an independent study of the size, complexity and cost of the Corporation's organizational structure. The subject was discussed by the Standing Committee on Public Accounts of the House of Commons at meetings held on July 2 and 7, 1964 when this Committee was examining the Corporation's accounts for its 1962 and 1963 financial years. As a result of the discussions which took place at these meetings, the Public Accounts Committee made the following recommendations in its Fifth Report 1964:

1. Annual report of the Corporation

The Committee recommended that the President and Board of Directors of the Corporation take steps to improve the contents of the Corporation's annual report by including therein supplementary financial information concerning its operating and capital budgets and expenditures, for the purpose of providing additional information to Parliament and the public.

2. Statement of Operations

The Committee recommended that the President and the Board of Directors realign the format of the annual Statement of Operations of the Corporation in a manner designed to show separately in future for each fiscal year (1) the cost of programs produced without advertising but which were available for sale, and (2) the gross profit or loss derived from the sale of advertising from all sources.

3. Size of operating and capital requirements

The Committee expressed concern at the levels the Corporation's spending on operating and capital accounts has reached since television was first introduced into the national service in 1955. It commended consideration of this problem as one of the primary and immediate objectives of the Advisory Committee on Broadcasting, formation of which was announced by the government on May 25, 1964.

4. Authority of Comptroller over regional accountants

The Committee was disturbed to learn that the authority of the Comptroller over the accounting staffs at the regional centres of the Corporation across Canada is not clearly defined and expressed agreement with the view of the Auditor General that the regional accountants should be responsible directly to the Comptroller at head office in the interests of effective internal financial control. The Committee expressed the opinion that a clear definition of this responsibility is overdue and was pleased to be advised by the President that it will receive early attention. It requested the Auditor General to advise the Committee when this matter has been settled to his satisfaction.

5. Report of the Royal Commission on Government Organization

The Committee recommended that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

With respect to the Committee's first recommendation, the Corporation has provided more detailed information in its 1965 annual report and we believe that this should commend itself to the Members of the House of Commons. The Committee's second recommendation, as explained earlier, was likewise implemented by the Corporation when preparing its Statement of Operations for inclusion with its financial statements in its 1965 annual report.

The third recommendation was dealt with by the Advisory Committee on Broadcasting in its report to the Secretary of State made public on September 9, 1965. The fourth recommendation concerning the authority of the Comptroller over the regional accountants was resolved by an executive directive issued by the President on December 17, 1964 promoting the Comptroller to Vice-President, Finance and he now has effective control and supervision over the regional accountants across the country.

The fifth recommendation has not yet been implemented in the manner requested by the Public Accounts Committee (see Appendix 1, item 14). The Advisory Committee on Broadcasting, in commenting on the Royal Commission's studies at length in Chapter 8 of its report, was furnished by the Corporation with a 118-page memorandum on its views of Report 19. Presumably this memorandum will be available for tabling in the House in response to the request made by the Public Accounts Committee and will provide the information sought by that Committee.

188. *Canadian Commercial Corporation*. This Corporation which was established in 1946 by the Canadian Commercial Corporation Act, R.S., c. 35, provides procurement services in Canada for the governments of other countries and for international organizations. The Corporation's main customer is the United States Government. During the year \$161 million was expended by the Corporation on behalf of its customers as compared with \$217 million in the preceding year.

The equity of the Government of Canada in the Corporation as at March 31, 1965, amounted to \$3,875,000 consisting of \$3,500,000 working capital advances, \$150,000 reserve for United States exchange, and \$225,000 reserve for contingencies.

A comparative summary of the Corporation's operations for the last two years follows:

	Year ended March 31	
	1965	1964
Income—		
Purchase surcharges.....	\$ 100,000	\$ 145,000
Interest earned.....	98,000	133,000
Other income.....	7,000	—
	<u>205,000</u>	<u>278,000</u>
Expense—		
Salaries.....	67,000	444,000
Other expense.....	4,000	137,000
	<u>71,000</u>	<u>581,000</u>
Net profit (loss).....	\$ <u>134,000</u>	\$ <u>(303,000)</u>

In previous Reports we have noted that the Department of Defence Production has been providing purchasing and accounting services free of charge to the Corporation. With the implementation of the Board of Directors' decision that the management and

staff should be provided by the Department of Defence Production and the functions of the Corporation transferred to and performed by the Department, the provision of free services has reached the point where, since July 1, 1964, the administrative expenses paid by the Corporation comprise only the salaries of the President and his secretary together with some minor expenses, all other expenses being charged to Department of Defence Production Vote 1. As a result the Corporation's operations show a net profit of \$134,000 for the year compared with a net loss of \$303,000 for the preceding year.

When approving the Corporation's budget for 1964-65 the Minister of Finance suggested that periodic payments of surplus earnings be made by the Corporation into the Consolidated Revenue Fund in accordance with section 81(3) of the Financial Administration Act. However, the Directors were of the opinion that, before doing this, a reserve for contingencies should be created to cover possible losses falling on the Corporation in respect of contracts with the United States and other governments. The Minister of Finance and Minister of Industry agreed to the creation of a reserve for contingencies in the amount of \$225,000 and directed the Corporation to transfer this amount from surplus earnings.

Since the Corporation has been charged with only a small portion of its actual expenses, the year's net profit of \$134,000 does not in our view represent earnings or surplus which may be used to create a reserve for contingencies.

189. *Canadian Corporation for the 1967 World Exhibition.* This Corporation was established under the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, c. 12, as amended by 1963, c. 32, for the purposes of planning, organizing, holding and administering the International and Universal Exhibition to be held in Montreal in 1967 in connection with the celebration of the Centennial of Confederation in Canada. An Act respecting the Canadian World Exhibition, passed by the Quebec Legislature in 1963, provides authority for the Province of Quebec and the City of Montreal to share with the Government of Canada in the financing of the Corporation.

The Corporation consists of a Commissioner General, a Deputy Commissioner General and fourteen other directors appointed by the Governor in Council, seven of whom are appointed on the recommendation of the Lieutenant-Governor in Council of the Province of Quebec.

Section 17 of the Act requires that the accounts and financial transactions of the Corporation shall be audited by the Auditor General of Canada and the Quebec Provincial Auditor. The auditors are to report annually in a manner similar to that required by the Financial Administration Act in respect of other Crown corporations.

An agreement was concluded on January 18, 1963 between Canada, the Province of Quebec and the City of Montreal confirming their acceptance of the legislation establishing and governing the Corporation, and outlining certain "settlements" between the Corporation and the three governments to be concluded after the closing of the Exhibition. As the latter would appear to be couched in general terms, it has been suggested to the management that, in order to avoid complications in the ultimate interpretation of the relevant

clauses, the Corporation's legal officers should discuss these matters with the federal and provincial government departments concerned with a view to having the exact intent of the agreement more precisely stated.

Section 8 of the Canadian Corporation for the 1967 World Exhibition Act provides that the Corporation shall submit a plan of organization to the Governor in Council and the Lieutenant-Governor in Council for approval, showing the number of officers and employees estimated to be required for the proper conduct of the business of the Corporation, the proposed classes of positions and rates of compensation for each class and that the Corporation shall not employ an officer or employee except in accordance with the plan of organization so approved.

The initial plan of organization was submitted and approved in April 1963, providing for a total establishment of 79 positions for 1963. A number of revised plans of organization have subsequently been submitted and approved providing for substantial increases in the establishment. The number of authorized positions as at December 31, 1964 was 540, the actual staff strength at that date being 489. The current revised plan of organization, approved by the Governor in Council on February 25, 1965, provides for progressive increases in the staff establishment up to a total of 997 positions by the end of 1965. The approval of the Lieutenant-Governor in Council has been received in respect of a portion of the plan covering the first half of 1965.

Under section 10 of the federal Act, the Corporation was required to "submit for the approval of the Governor in Council and the Lieutenant-Governor in Council, its overall plan for the Exhibition, setting forth the various undertakings and projects proposed by the Corporation in connection with the planning, organizing, holding and administering of the Exhibition, the estimated cost of each such undertaking or project and an estimate of the total capital costs and operating costs of the Corporation in respect of the Exhibition".

Any material changes in the plan, including estimates of costs, are to be submitted to the Governor in Council and the Lieutenant-Governor in Council for approval, and the Corporation may not initiate any undertaking or project, expend any money thereon or incur any liability therefor unless that undertaking or project is included in the approved overall plan or modification thereof.

The first overall plan was submitted on December 20, 1963, and was approved by the Governor in Council and the Lieutenant-Governor in Council, showing an estimated net cost to the Corporation of \$47,534,000. A revised plan was submitted early in 1965 and was approved by the Governor in Council and the Lieutenant-Governor in Council, increasing the estimated net cost to the Corporation to \$63,864,000. A subsequent revised plan was approved by the Governor in Council on August 13, 1965 (P.C. 1965-1494) and by the Lieutenant-Governor in Council on August 25, 1965 (Order in Council No. 1677). The cost summary included in this current overall plan shows an estimated net cost to the Corporation of \$61,581,000, made up as follows:

Construction costs.....		\$ 147,797,000
Operating and administration costs.....		102,907,000
		<hr/> 250,704,000
Revenues.....	\$ 123,999,000	
Salvage.....	9,085,000	
Assets.....	56,039,000	189,123,000
	<hr/>	<hr/>
Net cost.....		\$ 61,581,000
		<hr/> <hr/>

Under the authority of the federal and provincial legislation, the activities of the Corporation are financed by funds provided by Canada, the Province of Quebec and the City of Montreal, and the aggregate of the grants made by the three governments must not exceed \$20 million, \$15 million, and \$5 million respectively. In this connection reference is made to paragraph 57 of this Report.

Section 12 of the federal Act provides that the Corporation, with the approval of the Minister of Finance and the Minister of Finance of Quebec, may borrow money for the purposes for which it is incorporated on the security of notes, bonds or debentures of the Corporation. Such notes, bonds or debentures are to be issued at such rates of interest and subject to such other terms and conditions as may be approved by the Governor in Council and the Lieutenant-Governor in Council, and are to be jointly guaranteed by Canada and Quebec. In addition, subsection (5) of section 12 provides that the Corporation may borrow money from the Minister of Finance for temporary purposes and the Minister of Finance, with the approval of the Governor in Council and subject to such terms and conditions as the Governor in Council may prescribe, may lend money to the Corporation for such purposes out of the Consolidated Revenue Fund, but the aggregate of all amounts loaned to the Corporation under this subsection and outstanding at any time shall not exceed \$1 million.

The financial statements of the Corporation for the year ended December 31, 1964 showed that the grants made by the three governments in respect of 1963 and 1964 totalled \$18,878,000, of which the Government of Canada contributed \$9,439,000, the Government of the Province of Quebec, \$7,079,000 and the City of Montreal, \$2,360,000. The 1964 report of the joint auditors, made in compliance with section 17 of the Canadian Corporation for the 1967 World Exhibition Act, drew attention to the fact that the sum of the grants received by the Corporation from the participating governments (\$18,878,000 as shown above) and the outstanding commitments under major contracts entered into prior to the year-end (approximately \$26,000,000) exceeded the sum of the statutory amounts (\$40 million) which could be paid by the participating governments under the existing legislation.

Arrangements have since been concluded by the Corporation to borrow funds from the Minister of Finance to meet its future corporate needs. Vote L26b of the Supplementary Estimates for 1965-66, seven-twelfths of which was approved by Appropriation Act No. 3, 1965, assented to on June 30, 1965, reads:

L26b—To provide for the purchase, acquisition, and holding by the Minister of Finance of securities issued by the Canadian Corporation for the 1967 World Exhibition pursuant to subsection (1) of section 12 of the Canadian Corporation for the 1967 World Exhibition Act and to subsequently dispose thereof \$80,000,000.

Section 15 of the Canadian Corporation for the 1967 World Exhibition Act requires that the Corporation submit a capital budget and an operating budget annually to the Minister designated to act as the Minister for the Exhibition and to the Minister of Industry and Commerce for the Government of the Province of Quebec for their approval and for the approval of the Minister of Finance and the Minister of Finance of Quebec, and the capital budget so approved shall be laid by the first-mentioned Minister before Parliament. The approved revised capital budget for 1964 provided for an estimated cash requirement during the year of \$21,235,000. The actual outlays during the year amounted to \$11,541,000, summarized below in comparison with the expenditures for the preceding year:

	Year ended December 31	
	1964	1963
Site preparation	\$ 676,000	\$ —
Roads and bridges	7,134,000	—
Utilities	693,000	—
Landscape development	251,000	—
Parking lots	61,000	—
Buildings and special structures	1,749,000	—
Mass transit system	371,000	—
Temporary construction facilities	37,000	—
Special engineering studies	135,000	289,000
Office furniture and equipment and leasehold improvements	434,000	246,000
	<u>\$ 11,541,000</u>	<u>\$ 535,000</u>

The substantial difference between the amount budgeted and the actual expenditure for the year was due mainly to low tenders for certain projects, changes in planning, unrequired contingencies included in the budget and certain projects connected with underground services being behind schedule. Regarding the latter, the Corporation's officers were satisfied that while these projects were not started as early as expected, they were meeting the basic objective of being placed ahead of building construction on the site.

The \$11,853,000 Capital and Prepaid Development Costs appearing in the Corporation's Balance Sheet as at December 31, 1964 consists of the \$12,076,000 total expenditures for the two years, shown above, less \$223,000 amortization and depreciation provided and included in the operating costs for the two years. This amount of \$11,853,000 represents the proprietorship equity of the three governments at December 31, 1964.

The revised operating budget for 1964, approved by the Minister of Finance and the Minister of Finance of Quebec, amounted to \$6,776,000. The net operating costs for the year, including amortization and depreciation, totalled \$6,063,000, and are summarized in comparison with the expenses for the preceding year, as follows:

	Year ended December 31	
	1964	1963
Personnel expenses—		
Salaries and employee benefits.....	\$ 3,387,000	\$ 373,000
Travel and representation.....	294,000	81,000
Recruitment and relocation of personnel.....	78,000	16,000
Automobile rentals.....	54,000	2,000
	<u>3,813,000</u>	<u>472,000</u>
Administrative expenses—		
Rent, light and power.....	329,000	59,000
Postage, telephone and telegraph.....	134,000	28,000
Office stationery and supplies.....	96,000	24,000
Administrative services.....	72,000	39,000
Legal fees.....	55,000	13,000
Office furniture and equipment rental and maintenance.....	50,000	7,000
Translation.....	47,000	4,000
Architectural and engineering supplies.....	41,000	7,000
Publications.....	33,000	8,000
Directors' expenses and Executive Committee fees and expenses	22,000	18,000
Miscellaneous.....	46,000	1,000
	<u>925,000</u>	<u>208,000</u>
Advisory Committee's travel and subsistence expenses.....	65,000	8,000
Other expenses—		
Advertising and publicity.....	934,000	87,000
Consultants' fees and expenses.....	165,000	131,000
Site protection.....	27,000	—
	<u>1,126,000</u>	<u>218,000</u>
Total operating expenses.....	<u>5,929,000</u>	<u>906,000</u>
Amortization and depreciation—		
Amortization of leasehold improvements.....	123,000	45,000
Depreciation of furniture and equipment.....	41,000	14,000
	<u>164,000</u>	<u>59,000</u>
	<u>6,093,000</u>	<u>965,000</u>
Bank interest earned.....	30,000	3,000
Net operating costs.....	<u>\$ 6,063,000</u>	<u>\$ 962,000</u>

In our 1964 Report to the House of Commons, mention was made of certain transactions and practices originating in the closing months of the year 1963 which in the opinion of the joint auditors were inconsistent with those usually followed by Crown corporations and government agencies in similar circumstances. They were discussed in detail at that time with both the Commissioner General and the Deputy Commissioner

General who advised us that they considered the expenditures to be necessary. In accepting their explanations at that time, the auditors advised the management that further comment on the transactions and practices in question would be deferred until the completion of the examination of the Corporation's accounts for the 1964 fiscal year.

The examination of the 1964 accounts disclosed the continued existence of these practices accompanied by a substantial increase in their cost to the Corporation. Accordingly, when meeting with the Board of Directors in March 1965 to review the Corporation's financial statements for the year 1964, the joint auditors placed their views on the transactions and practices in question before the Board, pointing out that the practices continued unchanged from the previous year, and indicating that however justifiable and prevalent such expenditures may be in private enterprise, payment of such costs from public funds was open to question. The members of the Board were advised that federal and provincial government departments, Crown corporations and other government agencies are not permitted to incur such costs as a general practice. Brief details of these practices and their cost to the Corporation up to December 31, 1964 are as follows:

- (1) At December 31, 1963 the Corporation had entered into one-year contracts for the rental of 15 cars for the use of senior officers and employees on a basis whereby each officer would pay \$30 per month for his personal use of the car with the Corporation bearing all rental and fuel costs. Total expense for the Corporation during the year ended December 31, 1963 amounted to \$2,000. During 1964, the number of automobiles under rental increased to 33 with the total expense to the Corporation for the year amounting to \$54,000, made up of rental payments, parking costs and gasoline.
- (2) Last year the attention of management was drawn to relocation expenses involving payment of substantial moving, hotel and living expenses to several newly appointed senior officers and employees over extended periods pending relocation in new homes. We pointed out to management that in many cases relocation costs of this nature would not have qualified for payment under the regulations laid down by the federal or provincial Treasury Boards. The cost to the Corporation during the year ended December 31, 1963 amounted to \$9,000 involving reimbursement to eight newly appointed senior officers and employees, while for the year ended December 31, 1964 these costs amounted to \$69,000 and involved reimbursement to 55 newly appointed officers.
- (3) During 1963 twelve of the Corporation's senior officers were insured by the Corporation under a special insurance policy, the Corporation paying premiums at the rate of \$95 per annum for each principal sum of \$100,000 insured. In all cases the beneficiaries named were and remain the estates or dependents of the insured officers. The cost of this insurance to the Corporation in 1963 was \$800. The same arrangement has continued through 1964 under a new policy at a rate of \$72 per annum for each principal sum of \$100,000 insured. At the close of the year, 48 of the Corporation's officers were so insured at an annual cost to the Corporation of \$2,800.
- (4) The approved plans of organization show the number of officers and employees required, the proposed classes of positions and a salary range for each such class established with the approval of the federal and provincial Treasury Boards and the Civil Service Commission of Canada. Our review of appointments made by the Corporation indicated that in the case of many appointments to senior positions, initial or starting salaries had been paid at rates higher than the established minimum rates, and in certain cases the maximum rates had been paid immediately on appointment at some of the most senior levels. In a number of instances promotions had been given in 1963 to senior officers

within six months of their appointments, and a large number of officers in receipt of salaries of \$10,000 per annum or more had received increases in 1964 ranging from 10% to 50%, the increases in three cases being over 51% with one as high as 92%.

In the meeting referred to, the joint auditors expressed to the Board the hope that action might be taken toward eliminating or otherwise reducing the costs involved in the above described practices. The Deputy Commissioner General and the General Manager furnished reasons to the meeting why in their opinion the practices in question had been and continued to be justifiable, citing the exceptional circumstances under which the Corporation had been organized and is operating today.

Several members of the Board pointed out that as most of the senior posts had been filled, costs of relocating new personnel as well as most of the major salary adjustments were now completed. The view was expressed, however, that there should be no barrier to prevent any changes being made in the practices criticized, and assurance was given by the members of the Board that greater vigilance would be exercised in checking such practices and their costs in future.

190. *Canadian National (West Indies) Steamships, Limited.* The active operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1964 amounted to \$542,000, represented by cash, \$86,000, and balance due under agreement of sale of vessels, \$470,000, less liability in respect of unclaimed matured bonds of \$14,000. During the year the Company received \$48,000 in war claims, earned bank interest of \$1,200 and expended \$1,600 on legal expenses.

The balance due under agreement of sale of vessels represented the final instalment, due August 19, 1963, under terms of letter of credit confirmed by the Bank of America. Payment has continued to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963, despite efforts of management to obtain release of the funds.

191. *Canadian Overseas Telecommunication Corporation.* The objects of this Corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, R.S., c. 42, are to establish, maintain and operate external telecommunication services generally, and to co-ordinate Canada's external telecommunication services with those of other nations. To these ends the Corporation, in 1950, acquired the Canadian external telecommunication facilities of Cable and Wireless Limited and Canadian Marconi Company Limited, which provided cable and radio-telegraph circuits between Canada and Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services to Britain and the West Indies. Since 1950 the Corporation has developed or participated with Commonwealth partners and other nations in the development of major extensions of and additions to the Canadian international telecommunication facilities and systems. In line with this policy, the Commonwealth Pacific Cable System, a multi-channel, multi-purpose cable between Canada and New Zealand and Australia,

was completed in December 1963 and an extension thereof into South-East Asia linking points at New Guinea, Guam, Hong Kong, Sabah and Singapore is expected to be completed and become fully operative by the beginning of 1967. The Corporation made its initial capital contribution in 1964-65 as a participant in the establishment of a global commercial communications satellite system.

The equity of the Crown in the Corporation amounted to \$67,593,000 at March 31, 1965, an increase of \$1,814,000 over the equity at the end of the previous year, and consisted of advances of \$55,054,000 for capital purposes and a surplus of \$12,539,000.

The capital requirements of the Corporation are financed in part by loans provided by parliamentary appropriations, with the balance provided out of accumulated earnings. The Corporation repaid \$2,408,000 on advances received in previous years and in March 1965 received a further \$2,000,000 for capital purposes. Capital additions amounted to \$6,483,000. At March 31, 1965 the estimated cost of completing approved capital projects was \$30,930,000 of which \$18,700,000 relates to the year ending March 31, 1966.

The following is a summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1965	1964
Income—		
Telephone, telegraph, telex, circuit rentals, etc.....	\$ 15,355,000	\$ 14,278,000
Expense—		
Salaries, wages and employee benefits.....	3,613,000	3,105,000
Depreciation.....	4,016,000	2,855,000
Rental of circuits, etc.....	1,894,000	1,996,000
Interest.....	2,604,000	1,687,000
Operation, maintenance and repairs—buildings, plant and equipment.....	1,832,000	1,126,000
Other.....	673,000	575,000
	14,632,000	11,344,000
Less: Estimated amount recoverable from Commonwealth Network.....	3,699,000	1,817,000
	10,933,000	9,527,000
Profit before income tax.....	4,422,000	4,751,000
Provision for income tax.....	2,201,000	2,365,000
Net profit.....	\$ 2,221,000	\$ 2,386,000

Income increased by \$1,077,000 or approximately 8% over that of the previous year, compared with an increase of 16% recorded last year. The increased revenue included increases in telephone, telegraph and telex revenue of approximately \$2,220,000 offset in part by a substantial drop in circuit rental revenue as a result of the completion by other operators of alternative trans-Atlantic cables. Expenses increased by \$3,288,000 or 29% over the previous year, due largely to considerably higher interest charges against

operations together with the cost of operating and maintaining substantial newly-completed plant and equipment. There was a consequent increase in the estimated amount recoverable from the Commonwealth Network of \$1,882,000.

In the course of our examination we drew the attention of management to a number of progress payments totalling \$1,745,000 for the Corporation's share of capital expenditures incurred by partners relating to one of the major cable projects. These were individually in excess of \$50,000 and did not have the approval of the Governor in Council as is required by section 8 of the Canadian Overseas Telecommunication Corporation Act, although the Corporation had been notified by the Department of Transport that the total estimated cost of the project concerned had received Cabinet approval. It was also noted that disbursements of \$343,000 for the leasing of additional circuits as a result of emergency conditions caused by cable breaks had not been approved by the Governor in Council. We were informed that the Corporation is presently seeking this approval.

192. *Canadian Patents and Development Limited.* Section 17 of the Research Council Act, R.S., c.239, provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Companies Act, 1934, R.S., c. 53, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the Company, which is located at Ottawa, are available to government departments, publicly supported institutions and universities.

At March 31, 1965 the Crown's equity in the Company was \$1,186,000, comprising capital stock of \$296,000 and surplus of \$890,000.

The following summary shows the results of the Company's operations for the year ended March 31, 1965 compared with the preceding year:

	Year ended March 31	
	1965	1964
Income—		
Royalties, licensing fees, etc.....	\$ 397,000	\$ 376,000
Less: Costs of licensing rights and related technical assistance, etc.....	35,000	25,000
	362,000	351,000
Other income.....	49,000	41,000
	411,000	392,000
Expense—		
Promotion and development.....	50,000	103,000
Services provided by National Research Council.....	48,000	42,000
Patent attorneys' fees and other patenting costs.....	44,000	38,000
Salaries.....	31,000	29,000
Awards to inventors.....	17,000	15,000
Other expenses.....	4,000	16,000
	194,000	243,000
Net profit.....	\$ 217,000	\$ 149,000

The increased income from royalties, licensing fees, etc., is largely attributable to four inventions, while there was a substantial reduction in royalties received on one other invention. The increase in the cost of licensing rights and related technical assistance, etc., was mainly due to an increase in royalties payable under an agreement with a university.

The decrease in the cost of promotion and development is mainly attributable to the completion of a large development contract, with no contract comparable in size being entered into during the year. Outstanding commitments on development contracts amounted to approximately \$25,000 at March 31, 1965.

The increased cost of patent attorneys' fees and other patenting costs resulted from a general growth of activities related to the procurement of patents. The decrease in other expenses is chiefly accounted for by a substantial drop in legal fees and travel expenses.

193. *Centennial Commission.* The Centennial Commission was established by the Centennial of Canadian Confederation Act, 1960-61, c.60, as amended by 1963, c.36, to promote interest in, and to plan and implement programs and projects relating to the Centennial of Confederation in Canada. The Commission, with its head office in Ottawa, consists of a Commissioner, an Associate Commissioner and twelve Directors, all appointed by the Governor in Council.

The following is a comparative summary of expenses for the past two years and cumulative figures since the establishment of the Commission:

	Year ended March 31		Cumulative from September 29, 1961
	1965	1964	
Programs and projects of national significance. \$	2,439,000	\$ 1,495,000	\$ 4,208,000
Grants to provinces for approved projects of lasting nature.....	976,000		976,000
Administrative expenses:			
Salaries and employee benefits.....	494,000	272,000	774,000
Professional and special services.....	90,000	45,000	135,000
Travel.....	70,000	34,000	106,000
Informational programs and publications....	67,000	8,000	75,000
Accommodation.....	37,000	25,000	62,000
Other.....	104,000	64,000	180,000
	862,000	448,000	1,332,000
Total expense..... \$	4,277,000	\$ 1,943,000	\$ 6,516,000

Expenditures of \$2,439,000 on programs and projects of national significance were provided for by a parliamentary appropriation. These expenditures include \$863,000 paid to the Fathers of Confederation Memorial Citizens Foundation as the federal Government's 1964-65 contribution toward the construction of the Fathers of Confederation Memorial Building at Charlottetown, P.E.I. The Centennial Commission and various provincial governments are sharing the cost of this building equally, with the contribution of the

Commission limited to \$2,800,000. To March 31, 1965 the Commission's contributions to this project totalled \$2,419,000. Outlays to March 31, 1965 also included preliminary and excavation costs of \$708,000 for the Canadian Centre for Performing Arts in Ottawa (now National Arts Centre).

Section 10 of the Act directs that there shall be a special account in the Consolidated Revenue Fund to be known as the Centennial of Confederation Fund, to which shall be credited amounts appropriated by Parliament for purposes of the Fund. At the end of the previous year a balance of \$3,000,000 was held by the Minister of Finance at the credit of the Fund and was available for grants to the provinces for approved projects of a lasting nature. During the year \$4,000,000 was added to the Fund and grants aggregating \$976,000 were made to the provinces. A balance of \$6,024,000 remained in the Fund on March 31, 1965.

Administrative expenses were provided for to the extent of \$819,000 by a parliamentary appropriation, and accommodation and accounting services having an estimated cost of \$43,000 were provided without charge by departments of the Government of Canada.

194. *Cornwall International Bridge Company Limited.* The shares of this Company are owned equally by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation).

The Company has been in process of winding up since July 3, 1962, when it ceased to operate the toll bridge system across the St. Lawrence River between Cornwall, Ontario, and Rooseveltown, New York. The toll bridge system is now operated by The Seaway International Bridge Corporation, Ltd., a subsidiary of The St. Lawrence Seaway Authority.

The equity of the Seaway entities in the Company at September 30, 1964 consisted of capital stock of \$50,000 less a deficit of \$9,000.

During the year ended September 30, 1964, the Company transferred free of charge to the Town of Massena, New York, a bridge over the Racquette River, a road serving the bridge, and land for the road allowance. The remaining parcels of land owned by the Company have been offered for sale.

195. *Crown Assets Disposal Corporation.* This Corporation, originally established as the War Assets Corporation in 1944 by the Surplus Crown Assets Act, R.S., c. 260, received its present name by a 1949 amendment to that Act. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all Government departments and most of the Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The head office of the Corporation is in Ottawa, with sales offices in a number of cities across Canada.

As has been the case for a number of years, the Corporation was authorized for the 1964-65 year to retain 4% of the net proceeds of sales of lands and buildings and of interest on long-term sales agreements and 10% of the net proceeds of all other sales to meet its

administrative and other expenses. A summary of the Corporation's income and expense for the year together with comparable figures for the preceding year follows:

	Year ended March 31	
	1965	1964
Income—		
Portion retainable by the Corporation from net sales and other income earned.....	\$ 1,349,000	\$ 832,000
Expense—		
Salaries.....	496,000	453,000
Rent.....	55,000	55,000
Employees' welfare benefits.....	48,000	43,000
Printing, stationery and office supplies.....	31,000	24,000
Telephone, telegraph and postage.....	27,000	23,000
Net depreciated cost at March 31, 1964 of office furniture and equipment, etc., written off.....	21,000	—
Legal and advertising.....	15,000	5,000
Travel.....	14,000	15,000
Office furniture and equipment purchased during year.....	12,000	—
Provision for depreciation of capital assets.....	—	5,000
Other expenses.....	2,000	1,000
	721,000	624,000
Excess of income over expense.....	\$ 628,000	\$ 208,000

The \$517,000 increase in income was due to a larger volume of sales, resulting mainly from reductions in the defence programs, from the net proceeds of which the Corporation retains the authorized percentages referred to above. A major part of the \$97,000 increase in expense resulted from salary increases retroactive to October 1, 1963, a staff increase related to the increased volume of sales, the write-off of the net depreciated cost of capital assets, and the cost of office furniture and equipment purchased during the year which was charged to expense instead of being capitalized as in former years. The cost of future acquisitions of office furniture and equipment will be charged as an expense of the year in which the expenditure is incurred.

Pursuant to section 81(3) of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959, and from time to time thereafter but at intervals of not longer than six months, all of its surplus in excess of \$100,000. The \$628,000 excess of income over expense for the year was, in consequence, paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown in the Corporation's Agency Account at March 31, 1965 was \$5,538,000, compared with \$5,197,000 at the end of the preceding year, and was largely represented by amounts totalling \$4,789,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31	
	1965	1964
Sales made on behalf of—		
Government of Canada.....	\$ 16,101,000	\$ 10,194,000
Other principals.....	958,000	822,000
Interest.....	208,000	223,000
	17,267,000	11,239,000
Less: Direct costs relating to sales.....	52,000	42,000
	17,215,000	11,197,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned.....	1,348,000	832,000
Remittances to the Receiver General.....	14,666,000	10,314,000
Other remittances.....	979,000	642,000
	16,993,000	11,788,000
Increase (decrease) in equity:		
Government of Canada.....	341,000	(687,000)
Other principals.....	(119,000)	96,000
	\$ 222,000	\$ (591,000)

Sales increased by \$6,043,000 due primarily to the increase in the number of sales involving substantial amounts which resulted from the disposal of defence installations, including land, buildings, equipment, as well as ships and other assets.

In its Seventh Report 1964 the Public Accounts Committee recommended that the sales and inspection procedures of the Corporation be revised with a view to improving sales techniques. In February 1965 the Minister of Industry advised us that steps had been taken by the Corporation to revise and upgrade its operating instructions in the area of pre-sales analysis and inspection. He also stated that the Corporation proposed to undertake a more aggressive sales campaign in such areas as market research and analysis, the development of new methods of improving its solicitation lists, and the exploring of ways and means of interesting new and substantial merchandising outlets.

196. *Defence Construction (1951) Limited*. This Crown-owned agency was incorporated in 1951 under the Companies Act, 1934, pursuant to the authority in section 7 of the Defence Production Act, R.S., c. 62. The Company is responsible for awarding and supervising contracts for defence construction projects. Funds to finance the projects are provided by the departments concerned, or by the United States Government for projects undertaken on its behalf. Expenditures on defence construction projects which were approved by the Company for payment by the Department of National Defence and by the United States Government increased by \$3.2 million from \$29.3 million in 1963-64 to

\$32.5 million in 1964-65. The increase in expenditure reflects to a great extent the high proportion of the year's work devoted to airfield runway and taxiway projects, which can be completed more quickly than work on other construction projects of the same dollar value.

Funds to cover the Company's operating expenses are provided annually by an appropriation of the Department of Defence Production. During the year, in order to show the full extent of the Company's operations, expenditures made on a recoverable basis were charged to the various expense classifications, instead of being recorded only as accounts receivable as in prior years and the amounts recovered or recoverable were shown as income. The figures for the preceding year were adjusted accordingly and are shown in comparison with the operating results for the year in the following summary:

	Year ended March 31	
	1965	1964
Expense—		
Salaries and living allowances.....	\$ 3,035,000	\$ 2,452,000
Employee welfare benefits.....	219,000	178,000
Travel and removal.....	160,000	188,000
Other expenses.....	328,000	315,000
	<u>3,742,000</u>	<u>3,133,000</u>
Income—		
Reimbursement for engineering and administrative services....	1,540,000	622,000
Other income.....	2,000	1,000
	<u>1,542,000</u>	<u>623,000</u>
Net expense.....	<u>\$ 2,200,000</u>	<u>\$ 2,510,000</u>

The increase in income and expense is the result of an increase in the volume of work on special projects performed on a recoverable basis for government departments and agencies. It will be noted, however, that the increase in expense was \$310,000 less than the increase in income. This is more than accounted for by a decrease during the year of \$324,000 in salaries and related costs due to a reduction in the number of employees engaged on the Company's regular work.

197. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Companies Act and is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Operating from headquarters in Edmonton, it provides air transportation services almost entirely to its parent company and Northern Transportation Company Limited, which is also a subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited at December 31, 1964 comprised capital stock of \$28,000 and surplus of \$228,000.

The following is a comparative summary of the net expenses of the Company for the past two years:

	Year ended December 31	
	1964	1963
Salaries, wages and contributions to employees' pension plan.....	\$ 231,000	\$ 187,000
Repairs.....	173,000	167,000
Supplies.....	150,000	153,000
Depreciation.....	62,000	49,000
Hangar expense.....	53,000	44,000
Insurance.....	36,000	35,000
Other.....	35,000	41,000
Total expenses.....	740,000	676,000
Less: Miscellaneous income.....	23,000	5,000
Net expenses.....	\$ 717,000	\$ 671,000

The net expenses for 1964 were recovered from Eldorado Mining and Refining Limited to the extent of \$544,000 and from Northern Transportation Company Limited to the extent of \$173,000.

198. *Eldorado Mining and Refining Limited.* This Company was incorporated in 1945 under the Companies Act, 1934, following expropriation in 1944 of the shares of a privately-owned company. The head office of the Company is in Ottawa, the Beaverlodge mine is near Uranium City, Saskatchewan, and the refinery and administrative offices are in Port Hope, Ontario. The principal functions of the Company are to produce, refine and sell uranium and allied products.

The equity of the Crown in the Company at December 31, 1964 amounted to \$52,001,000 consisting of capital stock of \$6,586,000 and surplus of \$45,415,000. Dividends of \$1,500,000 were paid to the Receiver General during the year, compared with \$2,000,000 paid in the preceding year.

In 1962 the Company contracted to sell to the United Kingdom Atomic Energy Authority 24,000,000 pounds of uranium concentrates between the years 1962 and 1971. At the same time, the Company contracted to purchase 20,917,000 pounds of uranium concentrates from six producers. The balance of 3,083,000 pounds is to be supplied from the Company's own mine. The contract provides for the deferment of payment for certain deliveries until the later years of the contract period. At December 31, 1964 an amount of \$7,040,000 was due in fixed monthly instalments ending March 31, 1966 while \$25,422,000 is recoverable in equal annual instalments during the years 1971-73.

All costs and expenses in connection with the procurement of concentrates from other producers are recovered and, in addition, charges are made by the Company for administering and financing the program. At December 31, 1963 the excess of costs and expenses over sales of concentrates, procured from other producers, amounted to \$2,990,000. During 1964 sales exceeded costs and expenses by \$2,748,000 leaving a balance of \$242,000 to be recovered in 1965.

During 1963 the Governor in Council granted authority for entry into contracts between Her Majesty the Queen in right of Canada, represented by Eldorado Mining and Refining Limited, and certain Canadian uranium producers for the purchase of uranium concentrates for stockpiling. At December 31, 1964 the Company was the custodian of uranium concentrates thus acquired at a total cost of \$24,408,000. Funds for the acquisition of these concentrates were provided by appropriations of the Department of Trade and Commerce and accordingly their cost was not included in the accounts of the Company.

The following is a summary of income and expense for 1964, in comparison with the preceding year:

	Year ended December 31	
	1964	1963
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services.....	\$ 15,690,000	\$ 24,281,000
Expense—		
Mining, milling, refining and other expenses.....	5,690,000	11,694,000
Depreciation.....	4,103,000	4,162,000
Amortization of cost of acquiring rights to deliver concentrates on cancellation of contract with another producer.....	3,121,000	3,468,000
Amortization of pre-production, mine development and other deferred expenditures.....	410,000	807,000
Scientific research.....	1,180,000	936,000
	<u>14,504,000</u>	<u>21,067,000</u>
Net income from operations.....	1,186,000	3,214,000
Income arising from the financing of ore procurement program.....	2,974,000	1,255,000
Interest and other non-operating income (net).....	690,000	1,214,000
	<u>4,850,000</u>	<u>5,683,000</u>
Provision for income tax.....	2,400,000	2,900,000
Net income.....	<u>\$ 2,450,000</u>	<u>\$ 2,783,000</u>

The continuing downward trend in sales volume and the adverse effect of the deferment of deliveries under the terms of certain contracts have resulted in a decline of \$8,591,000 in sales revenue.

Included in the mining, milling, refining and other expenses is the write-off of obsolete and slow-moving stores at Beaverlodge in the amount of \$202,000, making a total of \$1,030,000 written off since 1960.

In 1960 the Company acquired, at a cost of \$19 million, the rights of another uranium producer to deliver concentrates to the United States Atomic Energy Commission. This cost has been amortized on a pro-rata basis against the production of the Beaverlodge mine and the balance of \$3,121,000 at January 1, 1964 was written off during the year.

Under the provisions of the contract for the delivery of 24,000,000 pounds of uranium concentrates to the United Kingdom Atomic Energy Authority, the Company delivered 7,259,000 pounds during 1964 at an excess of selling price over average cost of \$3,012,000. After allowance for administrative costs of \$38,000, a balance of \$2,974,000 remained as income arising from the financing of the ore procurement program.

199. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c.105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation, which has its head office in Ottawa and branches in Montreal and Toronto, is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake, it may seek the approval of the Governor in Council, pursuant to section 21 of the Act, to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. An amendment to the Act in 1959 introduced section 21A under which the Corporation may, with the authority of the Governor in Council, provide long-term financing for export sales of capital goods and services with funds available out of the Consolidated Revenue Fund.

The Crown's equity in the Corporation at December 31, 1964 was \$92,597,000 consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, and an underwriting reserve of \$9,719,000, together with advances and accrued interest totalling \$72,878,000 in respect of long-term financing of sales agreements under section 21A of the Act.

Export sales insured by the Corporation on its own account during 1964 totalled \$131,000,000 on which premiums of \$761,000 were earned. Export sales insured under section 21 of the Act totalled \$215,000,000 and premiums amounted to \$1,762,000 of which \$1,322,000 was remitted to the Receiver General and \$440,000 was retained by the Corporation in respect of expenses and overhead, in accordance with a basis authorized by the Minister of Trade and Commerce. At December 31, 1964 the liability of the Corporation under contracts of insurance issued and outstanding totalled \$420,725,000 of which \$311,497,000 was for contracts entered into under section 21 of the Act.

At December 31, 1964, after four years of operation in the field of direct long-term financing of export sales of capital goods and services under the authority of section 21A of the Act, the Corporation had signed agreements to finance export sales amounting to \$212,000,000 of which \$124,000,000 had been disbursed. In addition, the Corporation had agreed to finance \$27,000,000 of prospective sales and had guaranteed or had undertaken to guarantee negotiable instruments totalling \$13,276,000 with respect to completed sales. During the year the Corporation sold additional promissory notes having a face value of \$23,000,000 which were outstanding under section 21A, to the Export Finance Corporation of Canada, Ltd. (a subsidiary of the Canadian chartered banks). The Corporation continues to be responsible for the administration of notes amounting to \$46,720,000 sold in this manner which mature within five years, and guarantees payment of principal and interest.

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The following is a comparative summary of operations for the past two years:

	Year ended December 31	
	1964	1963
Income—		
Premiums and fees earned.....	\$ 1,287,000	\$ 1,003,000
Expense—		
Salaries and employee benefits.....	438,000	381,000
Rents.....	39,000	36,000
Stationery, printing and office expenses.....	28,000	29,000
Travel.....	29,000	25,000
Communications expense.....	18,000	16,000
Other.....	46,000	31,000
	598,000	518,000
	689,000	485,000
Policyholders' claims—		
Recoveries.....	655,000	597,000
Payments.....	515,000	195,000
	140,000	402,000
Excess of income and net recovery on policyholders' claims over expense.....	829,000	887,000
Add: Interest on investments.....	636,000	774,000
	1,465,000	1,661,000
Deduct: Provision for income tax.....	—	796,000
Surplus.....	\$ 1,465,000	\$ 865,000

The increase of \$80,000 in expense for the year resulted mainly from an increase of \$57,000 in salaries, of which approximately \$21,000 was for additional staff taken on in 1963 and 1964 and \$36,000 was for salary increases.

The following is a summary of transactions in respect of claims paid to policyholders:

Type of claim	Outstanding Jan. 1, 1964	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1964
Insolvency.....	\$ 264,000	\$ 36,000	\$ 27,000	\$ 20,000	\$ 253,000
Default.....	260,000	53,000	22,000	37,000	254,000
Exchange transfer.....	494,000	426,000	606,000	(45,000)	359,000
Other.....	1,000	—	—	—	1,000
	\$ 1,019,000	\$ 515,000	\$ 655,000	\$ 12,000	\$ 867,000

Of the amount of \$867,000 shown above as outstanding at December 31, 1964, the Corporation anticipates making substantial recoveries, particularly in respect of those

claims, amounting to \$359,000, which were paid because of exchange transfer difficulties in the buyers' countries. The amounts to be recovered will be added to income in the years in which recoveries are effected.

Following an amendment to the Export Credits Insurance Act in 1964, which exempted the Corporation from the payment of income tax, the Corporation paid an amount of \$10 million into a special non-interest-bearing account in the name of the Corporation in the Consolidated Revenue Fund. This amount corresponds to the sum of the paid-in capital and the capital surplus of the Corporation.

In April 1965 a further \$3,976,000, corresponding to the net interest earned through the investment of funds equivalent to the paid-in capital and the capital surplus of the Corporation, was deposited in the same account. The Corporation also undertook, beginning with the year 1965, to pay to the Receiver General the excess, if any, of premiums retained in respect of policies written under section 21 of the Act and of interest retained on section 21A long-term financing operations, over the calculated administrative costs and overhead attributable to these operations.

In our report under section 87 of the Financial Administration Act on the examination of the accounts of the Corporation for the year ended December 31, 1964, reference was made to the decision of the Board of Directors to transfer the total of the Corporation's Earned Surplus account, together with the excess of income over expense for the year ended December 31, 1964, to the Underwriting Reserve and to show the Reserve on the balance sheet of the Corporation as a liability reserve. We stated that, in our opinion, this Reserve is general in nature and at December 31, 1964 constituted part of the shareholders' equity in the Corporation and should have been included in the capital or shareholders' equity section of the balance sheet.

We have been informed by the Corporation that further consideration will be given to this matter.

200. Farm Credit Corporation. This Corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Machinery Syndicates Credit Act, 1964, c. 29, which authorizes the making of loans to qualified syndicates of three or more farmers to purchase farm machinery for their co-operative use. The head office of the Corporation is in Ottawa and there are 7 branch and 126 field offices throughout Canada.

The Government of Canada paid a further \$3,650,000 into the capital of the Corporation during the year and advanced an additional \$98,818,000 (net) by way of loans. At March 31, 1965 the equity of the Government in the Corporation amounted to \$456,061,000, comprising: capital, \$17,000,000; loans, \$424,341,000 (of which \$105,000 was in respect of the Farm Machinery Syndicates Credit Act); accrued interest on loans, \$13,075,000; reserve for losses under the Farm Credit Act, \$1,644,000; and retained earnings from operations of the Farm Machinery Syndicates Credit Act, \$1,000.

During the year, 9,845 loans were made to farmers to a total of \$139,751,000 compared with 7,802 loans amounting to \$96,316,000 made in the previous year. Repayments of

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principal amounted to \$37,359,000, an increase of \$11,933,000 over repayments in the previous year. Loans outstanding at March 31, 1965, with accrued interest, amounted to \$455,905,000 compared with \$350,357,000 at March 31, 1964. At the year-end \$54,000 had been loaned under the Farm Machinery Syndicates Credit Act, which came into force on December 11, 1964.

The following is a comparative summary of the income and expense of the Corporation for the last two years:

	Year ended March 31	
	1965	1964
<u>Operations under the Farm Credit Act</u>		
Income—		
Interest earnings.....	\$ 19,786,000	\$ 15,120,000
Deduct: Interest on loans from the Government of Canada....	17,169,000	13,188,000
	<u>2,617,000</u>	<u>1,932,000</u>
Appraisal, supervision and legal fees.....	828,000	521,000
	<u>3,445,000</u>	<u>2,453,000</u>
Expense—		
Salaries and employee benefits.....	3,116,000	2,764,000
Travel.....	327,000	310,000
Office accommodation.....	222,000	217,000
Postage, express, telephone and telegraph.....	94,000	84,000
Printing, stationery and office supplies.....	93,000	72,000
Rental and maintenance of office equipment.....	55,000	27,000
Fees and expenses of part-time appraisers.....	15,000	18,000
Management consultants' fees.....	12,000	16,000
Depreciation.....	36,000	36,000
Other.....	55,000	28,000
	<u>4,025,000</u>	<u>3,572,000</u>
Less: Portion allocated to operations under the Farm Machinery Syndicates Credit Act.....	50,000	—
	<u>3,975,000</u>	<u>3,572,000</u>
Net operating loss, provided for by parliamentary appropriation..	\$ 530,000	\$ 1,119,000

Operations under the Farm Machinery Syndicates Credit Act
for the period December 11, 1964 to March 31, 1965

Income—	
Interest (net) and service charges.....	\$ 1,000
Amount appropriated by Parliament for carrying out the purposes of this Act.....	50,000
	<u>51,000</u>
Portion of Corporation's expenses allocated to operations under this Act..	50,000
	<u>50,000</u>
Excess of income over expense transferred to retained earnings.....	\$ 1,000

The increase of \$403,000 in expense for the year was due largely to the continued growth in lending activity and the consequent expansion of the Corporation which

resulted in an increase in staff from 183 at March 31, 1960 to 498 at March 31, 1964 and 529 at March 31, 1965. During the same period the number and principal of loans outstanding increased from 28,000 and \$117,000,000 to 47,000 and \$444,000,000.

In our report under section 87 of the Financial Administration Act on the examination of the accounts of the Corporation for the year ended March 31, 1965, reference was made to the reduction in the Reserve for Losses during the past five years, due in part to the statutory obligation placed on the Corporation to lend money at a fixed rate, as follows:

Section 15 of the Farm Credit Act requires the Corporation to establish a Reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this Reserve until the amount of the Reserve equals the capital of the Corporation. At March 31, 1965 the capital of the Corporation amounted to \$17,000,000 while the Reserve amounted to \$1,644,527, having been reduced by \$20,813 due to losses on loans realized during the past year.

As previously pointed out, the statutory lending rate of 5% on loans to farmers has not provided sufficient income to cover the interest paid on borrowings from the Government of Canada and administrative expenses applicable to loans made at this rate. The annual excess of expense over income is now being met each year by parliamentary appropriation. The operating loss of \$529,694 for the year ended March 31, 1965, compared with a loss of \$1,118,796 for the previous year, was recovered from Department of Agriculture Vote 90d.

While continuation of the policy of providing a parliamentary appropriation to cover the annual operating loss of the Corporation will prevent further depletion of the Reserve by such losses, no provision has been made for the building up of the Reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

The amendment to the Farm Credit Act which was assented to on June 18, 1964 increased the amount that a single farming enterprise may borrow under Part II of the Act from \$20,000 to \$40,000 and under Part III of the Act from \$27,500 to \$55,000. The interest rate of 5% per annum remains unchanged on amounts loaned by the Corporation up to the previously existing limits of \$20,000 and \$27,500, but the interest rate to be charged on moneys loaned in excess of these amounts may from time to time be prescribed by the Corporation with the approval of the Governor in Council "which rate shall be sufficient, if the whole amount of the loan were to be loaned by the Corporation at that rate, to return to the Corporation an amount equal to the cost to the Corporation of any money borrowed for the purposes of the loan and the expenses of the Corporation in respect thereof, including a reasonable reserve against loss".

On June 25, 1964 an interest rate of $6\frac{3}{8}\%$ per annum was approved for moneys loaned under the new increased limits. Since this rate applies only to the portion of any loan in excess of \$20,000 or \$27,500, as the case may be, the operations of the Corporation will continue to result in an annual operating loss.

201. *The National Battlefields Commission.* This Commission, which was constituted by the National Battlefields at Quebec Act, 1908, c. 57, with the objects of acquiring and preserving the historic battlefields at Quebec, comprises nine members, seven of whom are appointed by the Governor in Council and one each by the governments of the provinces of Ontario and Quebec.

Prior to 1958 the Commission was financed by statutory grants made from time to time under the constituting Act, but since then it has been financed by annual parliamentary appropriations. At March 31, 1965 the proprietary equity of the Crown in the Commission amounted to \$1,504,000.

The following is a summary of the expenses of the Commission for the year compared with those of the preceding year:

	Year ended March 31	
	1965	1964
Salaries, wages and related expenses.....	\$ 164,000	\$ 154,000
Policing services.....	31,000	20,000
Repairs of roads, driveways and buildings.....	25,000	18,000
Light, heat, power, gasoline and oil.....	15,000	11,000
Operating supplies and nursery stock.....	16,000	9,000
Other expenses.....	9,000	7,000
	<u>260,000</u>	<u>219,000</u>
Reconstruction of Martello Tower No. 4.....	42,000	—
Capital outlays.....	25,000	19,000
	<u>\$ 327,000</u>	<u>\$ 238,000</u>

The expenses of the Commission were financed to the extent of \$315,000 by parliamentary appropriations, based on the approved budget of the Commission for the fiscal year 1964-65, \$2,000 from miscellaneous income, and the balance of \$10,000 by increasing outstanding current obligations.

In the approved budget it was stipulated that expenditure in respect of each item detailed therein might exceed the amount allotted by 10% without further approval, provided that the total expenditure did not exceed \$315,000. The accounts of the Commission showed that expenditure in respect of four of the items in the budget exceeded the limit prescribed by more than 10% in each case, and that the total expense for the year, which amounted to \$327,000, exceeded the budget total by \$12,000.

Funds contributed by provincial governments and others in the years following the establishment of the Commission in 1908, which may be used only for the acquisition of land with prior parliamentary approval, amounted to \$32,000 at March 31, 1965. The only changes in the balance of this account for many years have been the increases arising out of investment earnings.

The Balance Sheet of the Commission as at March 31, 1965 has not been approved by the Chairman as in previous years. The Chairman, who has since resigned, advised us by letter on June 18, 1965 that he was withholding his signature because he disapproved of the year's deficit.

202. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

The proprietary interest of the Government of Canada in the Commission, including loans, at March 31, 1965 totalled \$115,266,000 represented by: cash, \$1,259,000; inventories of tools, equipment and supplies, \$204,000; and cost of capital assets, \$113,803,000.

The Commission's activities are financed by annual parliamentary appropriations, withdrawals from the National Capital Fund and loans from the Government of Canada, along with incidental revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1965	1964
Operation and maintenance of parks, parkways and grounds adjoining Government buildings at Ottawa and Hull, maintenance of other properties and general administration		
Expenditures.....	\$ 3,628,000	\$ 2,892,000
Provided for by:		
Parliamentary appropriations.....	\$ 3,390,000	\$ 2,668,000
Revenue.....	238,000	224,000
	<u>\$ 3,628,000</u>	<u>\$ 2,892,000</u>
National Capital Fund transactions		
Balance of Fund in hands of Commission at beginning of year...	\$ 986,000	\$ —
Amount due from National Capital Fund at beginning of year...	—	(258,000)
Add:		
Amounts drawn from Fund.....	10,500,000	7,850,000
Proceeds from sales of property.....	425,000	177,000
	<u>11,911,000</u>	<u>7,769,000</u>
Deduct:		
Capital outlays for parks, parkways, railway lines and structures, etc.....	7,181,000	3,960,000
Repayment of loans to acquire property now in use—Queensway (1964—Ottawa River Parkway).....	2,529,000	61,000
Maintenance of land and rehabilitation works.....	112,000	90,000
Contributions to the City of Ottawa and other municipalities towards the cost of constructing roads, bridges, sewers, etc...	339,000	2,672,000
	<u>10,161,000</u>	<u>6,783,000</u>
Balance of Fund in hands of Commission at end of year.....	<u>\$ 1,750,000</u>	<u>\$ 986,000</u>

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	Year ended March 31	
	1965	1964
<u>Acquisition of property in the National Capital Region through loans provided by the Government of Canada</u>		
Unexpended balance of loans at beginning of year.....\$	383,000	\$ 1,230,000
Add:		
Government of Canada loans (net).....	6,865,000	12,081,000
Amount recovered from the National Capital Fund with respect to properties put into use.....	2,529,000	61,000
Proceeds from sales of property.....	1,906,000	58,000
	<u>11,683,000</u>	<u>13,430,000</u>
Deduct:		
Expenditures for acquisition of property.....	10,424,000	13,047,000
Unexpended balance of loans at end of year.....\$	<u>1,259,000</u>	<u>\$ 383,000</u>
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans.....\$	<u>2,858,000</u>	<u>\$ 2,319,000</u>
Provided for by:		
Parliamentary appropriations.....\$	2,464,000	\$ 1,990,000
Net revenue from rentals of property and interest earnings....	394,000	329,000
	<u>\$ 2,858,000</u>	<u>\$ 2,319,000</u>

The expenditures incurred in the various activities of the Commission, as summarized above, totalled \$27,071,000 during the year compared with \$25,041,000 in the preceding year and were financed as follows:

	Year ended March 31	
	1965	1964
Parliamentary appropriations.....\$	15,590,000	\$ 11,264,000
Loans to the Commission.....	10,424,000	13,047,000
Proceeds from sales of property.....	425,000	177,000
Revenues of the Commission.....	632,000	553,000
	<u>\$ 27,071,000</u>	<u>\$ 25,041,000</u>

The Public Accounts Committee gave further consideration to the practice of requiring the National Capital Commission to seek parliamentary appropriations to enable it to pay interest on loans obtained from the Minister of Finance for the purchase of properties. In its Sixth Report 1964 (see Appendix 1, item 27) the Committee again requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. Loans from the Minister of Finance totalled \$59,851,000 at March 31, 1965. Interest charges in 1964-65 amounted to \$2,858,000 of which \$2,464,000 was provided by Department of Public Works appropriations for the National Capital Commission, Vote 60 and 60d (see paragraph 167 of this Report).

203. *National Harbours Board.* This Board was established in 1936 by the National Harbours Board Act, R.S., c. 187, and has jurisdiction over the harbours of Halifax, Saint John, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with the grain elevators at Prescott and Port Colborne. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1964 totalled \$493,406,000 comprising: equity represented by the cost of assets transferred to the Board on its establishment and subsequently, \$59,750,000; loans and advances, \$320,094,000; interest in arrears on loans and advances, \$86,204,000; and reserves, \$109,871,000; less the accumulated deficit of \$82,513,000.

During the year there was an increase of \$3,308,000 in outstanding loans and advances and \$7,645,000 in interest in arrears. In previous Reports we observed that there was little prospect of the Board being in a position to meet its principal and interest obligations and recommended the reconstitution of the financial structure of the Board. Since 1964, officers of the Board, along with officers of the Department of Finance, have been considering proposals with a view to eliminating the Board's indebtedness to the extent that loans and interest in arrears are considered to be in excess of the anticipated ability of the Board to repay.

Current assets of the Board included the sum of \$243,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for the easement for a 20-inch natural gas pipeline over the Jacques Cartier Bridge. The amount represents \$185,000 outstanding on December 31, 1963 plus \$58,000 charged for 1964. In previous Reports we have noted that authority for the installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate but that the Corporation subsequently would not agree to the rate proposed and requested the Board to consider one that was little more than nominal. The case was referred to the Department of Justice late in 1964.

The Jacques Cartier Bridge, until revocation of tolls on June 1, 1962, was operated under a tri-partite agreement which required the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operations of the Bridge to a maximum of \$150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness amounted to \$744,425. From 1950 until revocation of tolls the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. In our 1963 and 1964 Reports we observed that the settlement of this claim and the transfer of this Bridge to the Province had been the subject of negotiations between the Board and the Province. No further action has been taken on this matter.

Repeated reference has been made in previous Reports to the dispute between the Board and the Canadian Pacific Railway regarding the ownership of certain areas of Coal Harbour, Vancouver. Title to the areas involved has been in dispute since 1880 and, pending settlement, the C.P.R. collects rental and other revenue from certain areas in its possession while the Board does likewise in respect of certain areas which the Board has occupied.

At December 31, 1964 the Board held \$167,000 in trust while the C.P.R. held \$249,000. During the year, the Board again referred the case to the Attorney General of Canada and, at the year-end, was in the process of securing information requested by him.

The following is a summary of the operations of the harbours and elevators and of the bridges for the past two years:

	Year ended December 31	
	1964	1963
<u>Harbours and Elevators</u>		
Operating income—		
Harbours.....	\$ 4,597,000	\$ 3,237,000
Wharves and piers.....	10,474,000	9,690,000
Grain elevator systems.....	9,423,000	9,074,000
Cold storage systems.....	1,315,000	1,275,000
Permanent sheds.....	2,206,000	2,037,000
Railway systems.....	863,000	748,000
Miscellaneous services.....	1,224,000	1,227,000
	<u>30,102,000</u>	<u>27,288,000</u>
Operating and administrative expenses—		
Harbours.....	4,411,000	3,687,000
Wharves and piers.....	946,000	1,121,000
Grain elevator systems.....	6,349,000	6,010,000
Cold storage systems.....	1,144,000	1,130,000
Permanent sheds.....	1,438,000	1,382,000
Railway systems.....	1,063,000	1,087,000
Miscellaneous services.....	1,344,000	1,318,000
Administrative expenses.....	2,558,000	2,285,000
	<u>19,253,000</u>	<u>18,020,000</u>
Net operating income.....	10,849,000	9,268,000
Other income—		
Income from investments.....	2,491,000	2,307,000
Miscellaneous.....	338,000	147,000
	<u>13,678,000</u>	<u>11,722,000</u>
Special charges—		
Provision for interest on loans and advances.....	9,392,000	9,157,000
Provision for replacement of capital assets.....	4,803,000	4,519,000
Other.....	464,000	374,000
	<u>14,659,000</u>	<u>14,050,000</u>
Net loss.....	<u>\$ 981,000</u>	<u>\$ 2,328,000</u>

	Year ended December 31	
	1964	1963
Bridges		
Operating income—		
Jacques Cartier Bridge.....	\$ 159,000	\$ 152,000
Champlain Bridge.....	625,000	448,000
	<u>784,000</u>	<u>600,000</u>
Operating expenses—		
Jacques Cartier Bridge.....	294,000	255,000
Champlain Bridge.....	408,000	426,000
	<u>702,000</u>	<u>681,000</u>
Net operating income (loss).....	<u>82,000</u>	<u>(81,000)</u>
Special charges—		
Provision for interest on loans and advances.....	1,620,000	1,521,000
Provision for replacement of capital assets.....	508,000	508,000
Settlement of claim by lessor of toll-collecting equipment....	279,000	—
Other.....	72,000	68,000
	<u>2,479,000</u>	<u>2,097,000</u>
Net loss.....	<u>\$ 2,397,000</u>	<u>\$ 2,178,000</u>

Tariff rates were increased during 1964 and waterborne cargo-tonnage surpassed that of 1963 by 8%. As a result, with the exception of the Prescott Elevator, revenue increased at all locations in 1964 over the preceding year. The increase in cargo-tonnage is mainly due to: increases in deliveries of wheat to Russia and China aggregating 2,259,000 tons; imports of crude oil which increased by 423,000 tons at Montreal and by 300,000 tons at Halifax; and motor vehicle imports from the United Kingdom, Germany and other countries which increased by 60% at Vancouver and 53% at Saint John.

In previous years the Prescott Elevator was used extensively for storing grains for short periods while awaiting arrival of ocean-going vessels in lower St. Lawrence River ports. This trans-shipment business has now almost disappeared with the completion of large storage elevators and modern loading facilities at Montreal, Sorel and Baie Comeau. As a result, the quantity of grains handled declined from 52,359,000 bushels in 1963 to 41,809,000 in 1964 which largely accounts for a decrease of \$145,000 in revenue from this elevator.

All tolls and charges in respect of passage of motor vehicles over the Jacques Cartier Bridge were revoked as of June 1, 1962. In 1964 there was, however, a small increase in the revenue derived from rentals and easements. Traffic across the Champlain Bridge in 1964 totalled 3,914,000 vehicles, an increase of 230,000 over 1963.

The increases in operating expenses were largely due to greater cargo-tonnage handled. In addition, certain expenditures were incurred during 1964 which had no counterpart in

1963. In Halifax, \$72,000 was spent on repairs to the grain gallery and on a special engineering survey of the port. In Quebec, \$30,000 was spent on major repairs to the grain elevator and the Canadian Corps of Commissionaires were retained to provide police service at a cost of \$24,000. In Montreal, police salaries were up \$29,000 and railway tracks were renewed at a cost of \$57,000. There was, however, a reduction of \$138,000 in railway maintenance at this port as a result of a reduction in the number of work gangs from three to two. In Vancouver, the roof of one storage shed and the walls of another were renewed and a street was repaved at a total cost of \$48,000.

The increase in administrative expenses was principally due to a general salary increase granted in 1964. In a number of classifications the new salary scales were made retroactive to October 1, 1963, following the pattern of the revised salary scales of the public service. In addition, the head office of the Board was moved to new quarters during 1964 which resulted in greater rental charges. Previously the Board shared space with the Department of Transport but was required to vacate due to additional needs of the Department.

Three items of expenditure merit observation. Under the terms of an agreement dated September 7, 1961, the Board leased certain automatic toll collecting equipment for use on the Jacques Cartier Bridge. The lease was for a period of five years at a daily rental of \$276. On June 1, 1962, nine months after the equipment was installed, all tolls applicable to the bridge were abolished by the Governor in Council. The toll collecting equipment was then removed and no further payments were made under the lease. The company that had installed the equipment claimed damages in excess of \$500,000 and was prepared to refer its claim to a court of law for adjudication. It was the opinion of the Board's legal advisers that the company's claim would not be sustained by the courts. However, the Board decided that the company should be compensated. The approval of the Governor in Council was then obtained for an *ex gratia* payment of \$279,000 in settlement of the company's claim.

Ex gratia payments totalling \$32,000 were made, with the approval of the Governor in Council, to owners of property adjacent to the Champlain Bridge due to land devaluation resulting from construction of the Bridge.

During the initial stages in the unloading of a grain vessel only mechanical devices are used. This period is referred to as "dip time" and not until one, two or three hours later—depending on the size of the vessel—are the services of riggers, rope pullers, scoopers and hold foremen required. We observed that the collective bargaining agreement between the Board and the labour unions at Port Colborne and Prescott provides for payment of these workers during dip time. During the year 120 vessels were unloaded at these locations and the workers were paid approximately \$20,000 during dip time for which the Board received no benefit.

204. *Northern Canada Power Commission.* This Commission, which was established in 1948 and operates under the Northern Canada Power Commission Act, 1956, c. 42, consists of three members appointed by the Governor in Council and has its head office in Ottawa. The objects of the Commission are to construct and operate electric power

plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. Hydro-electric plants are operated at Snare River, N.W.T., and at Mayo River and Whitehorse Rapids, Y.T., and thermal-electric stations are in operation at Fort Resolution, Fort Smith, Fort Simpson, Inuvik, Fort McPherson, Aklavik and Frobisher Bay, N.W.T., Field, B.C., and Moose Factory, Ontario. A hydro-electric power plant on the Taltson River, in the vicinity of Great Slave Lake, has been under construction since 1963.

The proprietary equity of the Government of Canada in the Commission, at the close of the past two fiscal years, follows:

	March 31	
	1965	1964
Advances, including \$50,000 for investigation of projects.....	\$ 28,142,000	\$ 22,463,000
Equity represented by cost of:		
Central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., financed by parliamentary appropriation...	7,003,000	7,003,000
Extension, expansion and improvements of capital assets financed from earnings.....	315,000	297,000
Reserve for contingencies.....	2,020,000	1,797,000
Earned surplus.....	1,274,000	988,000
	<u>\$ 38,754,000</u>	<u>\$ 32,548,000</u>

The Commission also acts as agent for the Government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, and, in this capacity, made advances to the provincial power commissions of Nova Scotia, Newfoundland and New Brunswick. Outstanding loans totalled \$32,158,000.

The following is a summary of the income and expense of the Commission for the past two years:

	Year ended March 31	
	1965	1964
Income—		
Sales of power.....	\$ 3,111,000	\$ 2,883,000
Income arising from construction, maintenance and operation of facilities for government departments and others.....	966,000	689,000
Sales of heat.....	734,000	412,000
Miscellaneous.....	205,000	171,000
	<u>5,016,000</u>	<u>4,155,000</u>
Expense—		
Operating and maintenance.....	2,887,000	2,252,000
Administrative.....	301,000	244,000
Interest on advances from the Government of Canada.....	751,000	749,000
Depreciation (equivalent to repayment of principal of advances from the Government of Canada).....	549,000	521,000
	<u>4,488,000</u>	<u>3,766,000</u>
Net income.....	<u>\$ 528,000</u>	<u>\$ 389,000</u>

Although rates for electric power were reduced at three locations during 1964-65 and at another late in the preceding year, greater consumer demand increased the revenue from this source. In addition, the Commission took over the operation and maintenance of the power plant at Moose Factory and the heating plant, water-treatment plant and other facilities at Frobisher Bay. Income arising from maintenance and operation of these facilities amounted to \$265,000; sales of power to \$92,000; and sales of heat to \$274,000.

A physical inventory of the central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., which was in progress at the end of the previous year, is nearing completion. These assets have a cost in excess of \$7 million and we were informed that determination of the costs of the various classifications of capital assets comprising this total will be available before March 31, 1966.

In the audit we found certain irregularities with respect to the collection of accounts receivable at Inuvik, N.W.T. A detailed examination was made at the site as a result of which it was determined that the cashier had withheld some \$650 which he had concealed by manipulation of the accounts. The employee admitted the defalcation and, after making restitution, submitted his resignation.

205. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c. 10, for the purpose of constructing the Northern Ontario section of the all-Canadian natural gas pipe line and leasing it (subject to approval by the Governor in Council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In due course the pipe line was constructed and leased with an option to purchase. The option was exercised and sale of the Northern Ontario section of the all-Canadian natural gas pipe line to Trans-Canada Pipe Lines Limited was completed on May 29, 1963. The purchaser assumed responsibility for the negotiation and settlement of all claims then outstanding and of any other claims which might arise in the future. Upon receipt of payment the Corporation discharged its liability to the Government of Canada for outstanding loans and interest accrued thereon, and was left with a surplus of \$694,000 of which \$690,000 remained on deposit with the Receiver General at the close of the Corporation's financial year on December 31, 1964.

The Corporation is presently considering the necessary steps to have its affairs wound up.

206. *Northern Transportation Company Limited.* This Company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation Company (1947) Limited was incorporated as a private company by letters patent dated November 27, 1947 under the provisions of the Companies Act, 1934, to take over the business of a predecessor company which had been incorporated under a Province of Alberta charter in 1934 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Government in 1944. The corporate name

was changed to Northern Transportation Company Limited by supplementary letters patent dated August 19, 1952.

The Company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere. Although the head office of the Company is in Ottawa, administrative headquarters are in Edmonton and activities have been almost wholly confined to the Mackenzie River water system and the western Arctic.

The equity of Eldorado Mining and Refining Limited at December 31, 1964 was \$6,949,000 comprising capital stock of \$152,000, a reserve for insurance of \$1,250,000 and surplus of \$5,547,000.

The following is a comparative summary of the operations of the Company for the last two years:

	Year ended December 31	
	1964	1963
Income—		
Freight earnings.....	\$ 3,074,000	\$ 2,809,000
Expense—		
Operations and maintenance:		
Salaries and wages.....	871,000	782,000
Repairs and maintenance.....	411,000	325,000
Depreciation.....	222,000	479,000
Fuels and lubricants.....	179,000	161,000
Messing expense.....	136,000	129,000
Other.....	171,000	151,000
	1,990,000	2,027,000
Administrative.....	265,000	245,000
	2,255,000	2,272,000
Net income from operations.....	819,000	537,000
Miscellaneous income.....	170,000	173,000
	989,000	710,000
Provision for income tax.....	472,000	439,000
Net income.....	\$ 517,000	\$ 271,000

Freight earnings increased by \$265,000 or 9.4% over the preceding year. The additional revenue was derived mainly from the transportation of large quantities of supplies to the Great Canadian Oil Sands project and oil drilling equipment to Alaska and sites along the Mackenzie River.

Operations and maintenance expense, excluding depreciation, increased by \$220,000 due to the larger volume of freight handled which required the services of an additional tug. There was a reduction of \$257,000 in the charge for depreciation as a result of three tugs and twenty-one barges having become fully depreciated by the end of 1963.

207. *Park Steamship Company Limited.* This Company was incorporated in 1942 under the Companies Act, 1934, for the purpose of supervising the operation of Crown-owned cargo vessels. The "Park Fleet" was sold in 1946-47 and since then the activities of the Company have been confined to the settlement of occasional claims for compensation by seamen for injuries sustained during previous service. These activities have been performed by the staff of the Canadian Maritime Commission.

Last year we observed that no claims for compensation had been received during the previous two years and suggested that the Company's charter be surrendered. It is now observed that on January 6, 1965 the Governor in Council authorized the Company to be wound up and the Crown to assume the liability for possible claims.

208. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Companies Act, 1934, pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, 1939, c.3. The Company, with its head office in Sarnia, Ontario, produces synthetic rubbers and chemicals. At December 31, 1964 there were three wholly-owned subsidiary companies, S.A. Polysar Belgium N.V., Polysar Nederland N.V., and Polysar International S.A., and one subsidiary, Polymer Corporation (SAF), in which Polymer held a 95% equity.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1964 amounted to \$90,442,000, consisting of capital stock of \$30,000,000 and retained earnings of \$60,442,000. During the year dividends of \$4,000,000 were paid to the Receiver General, compared with \$3,250,000 in the previous year.

The Company is continuing to expand its participation in synthetic rubber projects in Mexico and South Africa. At the year-end, its investment as a minority shareholder in the capital stock of the companies responsible for these projects amounted to \$2,784,000 compared with an investment of \$220,000 at the end of the previous year.

Net additions to fixed assets during the year amounted to \$4,970,000. In Sarnia, additional real estate was acquired, latex producing facilities were enlarged, and modifications were made to the resin facilities. In France and Belgium, improvements were made to production facilities. The Company estimates that \$14,236,000 will be spent for the acquisition of capital assets during the year ended December 31, 1965.

During the year the Company borrowed U.S. \$5,000,000 (\$5,400,000), repayable 1969-73, and B.Fr. 100,000,000 (\$2,162,000), repayable 1969-77, being the balance of a loan negotiated in the previous year.

The following is a summary of the operations of the Company and its subsidiaries for the past two years:

	Year ended December 31	
	1964	1963
Sales.....	\$ 113,864,000	\$ 97,460,000
Other income.....	427,000	346,000
	<u>114,291,000</u>	<u>97,806,000</u>
Cost of sales.....	92,288,000	76,576,000
Selling, administrative and research expenses.....	8,268,000	6,688,000
	<u>100,556,000</u>	<u>83,264,000</u>
Net income before provision for income tax.....	13,735,000	14,542,000
Provision for income tax.....	4,293,000	5,480,000
Net income before minority shareholder's interest.....	9,442,000	9,062,000
Minority shareholder's interest.....	8,000	76,000
Net income.....	<u>\$ 9,450,000</u>	<u>\$ 9,138,000</u>

The increase of \$16,404,000 in sales was achieved under highly competitive marketing conditions and an increasing incidence of protective measures taken by other countries. The increases of \$15,712,000 in cost of sales and \$1,580,000 in selling, administrative and research expenses were mainly attributable to the larger sales volume and the introduction of new products, the initial costs of which were comparatively high. In computing taxable income for the years 1961 to 1964 inclusive, the Company took advantage of capital cost allowances permitted under the Income Tax Act which were in excess of depreciation charged in the accounts. The effect of this procedure was to defer payment of income tax totalling \$3,870,000 until future years when depreciation charges may be in excess of capital cost allowances.

209. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, R.S., c.242, the Authority maintains and operates the Canadian section of the 27-foot deep waterway between the Port of Montreal and Lake Erie. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. In accordance with an agreement made in 1959 between Canada and the United States, revenues from tolls are divided between the two Seaway entities in proportion to their annual costs of operation and maintenance, interest charges and repayment of loans.

The Authority also operates non-toll canals at Lachine, Cornwall and Sault Ste. Marie, the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a president and two other members. Its head office is at Ottawa, with operating headquarters at Cornwall and regional headquarters at St. Lambert and St. Catharines.

The Crown's equity at December 31, 1964 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport (Welland Canal).....	\$ 130,717,000
Loans under section 25 of the Act:	
Interest-bearing.....	348,500,000
Interest-free.....	6,000,000
Interest on loans—deferred.....	78,997,000
	<hr/>
	564,214,000
Deduct: Deficit.....	65,107,000
	<hr/>
	\$ 499,107,000
	<hr/>

The following is a summary of the income and expense of the Authority for the past two years:

	Year ended December 31	
	1964	1963
Income—		
Tolls.....	\$ 13,544,000	\$ 10,730,000
The Seaway International Bridge Corporation, Ltd.—net income	199,000	193,000
Other.....	1,307,000	1,122,000
	<hr/>	<hr/>
	15,050,000	12,045,000
Expense—		
Operation and maintenance.....	7,895,000	6,231,000
Regional administration.....	741,000	700,000
Headquarters administration.....	1,274,000	1,207,000
Engineering.....	833,000	577,000
	<hr/>	<hr/>
	10,743,000	8,715,000
Less portion allocated to		
Non-toll canals.....	355,000	462,000
Construction.....	785,000	283,000
	<hr/>	<hr/>
	1,140,000	745,000
	<hr/>	<hr/>
	9,603,000	7,970,000
Net operating income before providing for interest and for replacement of machinery and equipment.....	<hr/>	<hr/>
	5,447,000	4,075,000
Interest on loans from the Government of Canada.....	18,064,000	16,804,000
Provision for replacement of machinery and equipment.....	865,000	961,000
	<hr/>	<hr/>
	18,929,000	17,765,000
Net loss.....	<hr/>	<hr/>
	\$ 13,482,000	\$ 13,690,000
	<hr/>	<hr/>

Tolls for the transit of the Welland Canal were suspended by the Government in July 1962. The resulting loss in revenue for 1964 was estimated at \$2,200,000.

The extent by which revenues in 1964 fell short of meeting operating expenses, interest charges and provision for replacement of machinery and equipment in each of the two sections of the waterway and of the North Channel Bridge is shown in the table below. It should be noted that the figures do not include provision for the amortization of loans of \$326,700,000 in respect of the Montreal-Lake Ontario Section which the Act requires to be paid out of earnings by December 31, 2009. However, deferred interest for the year 1961 was reduced by payment of \$5,289,000.

	Montreal-Lake Ontario Section	Welland Section	North Channel Bridge	Total
Tolls.....	\$ 13,544,000	\$ —	\$ —	\$ 13,544,000
Other income.....	366,000	941,000	199,000	1,506,000
	13,910,000	941,000	199,000	15,050,000
Expenses of operation, maintenance and administration.....	3,287,000	6,316,000	—	9,603,000
Net operating profit (loss).....	10,623,000	(5,375,000)	199,000	5,447,000
Interest on loans.....	14,999,000	2,620,000	445,000	18,064,000
Provision for replacement of machinery and equipment.....	448,000	407,000	10,000	865,000
	15,447,000	3,027,000	455,000	18,929,000
Net loss.....	\$ 4,824,000	\$ 8,402,000	\$ 256,000	\$ 13,482,000

On the Montreal-Lake Ontario Section, the net operating profit of \$10,623,000 compares with a profit of \$7,954,000 in 1963, \$6,206,000 in 1962, \$5,920,000 in 1961, \$5,245,000 in 1960 and \$6,019,000 for the nine-month period in 1959. On the Welland Section, the net operating loss of \$5,375,000 compares with a loss of \$4,072,000 in 1963, \$2,976,000 in 1962, \$2,361,000 in 1961, \$1,716,000 in 1960 and \$614,000 in 1959.

Toll revenues of the Authority for six full navigation seasons have been substantially less than had been anticipated by the Tolls Committees in 1958, as shown below:

	Montreal-Lake Ontario Section		Welland Section	
	Anticipated	Actual	Anticipated	Actual
1959.....	\$ 9,301,000	\$ 7,105,000	\$ 2,060,000	\$ 1,224,000
1960.....	10,789,000	7,156,000	2,215,000	1,326,000
1961.....	12,277,000	8,086,000	2,369,000	1,462,000
1962.....	13,765,000	8,914,000	2,575,000	642,000*
1963.....	15,254,000	10,730,000	2,730,000	—
1964.....	16,370,000	13,544,000	2,833,000	—
	\$ 77,756,000	\$ 55,535,000	\$ 14,782,000	\$ 4,654,000

*Tolls for the transit of the Welland Section were suspended as of July 18, 1962.

Under the provisions of section 16 of the St. Lawrence Seaway Authority Act, tolls are to be "designed to provide a revenue sufficient to defray the cost to the Authority of its operations", which costs are defined as including payments in respect of the interest on amounts borrowed by the Authority and amounts sufficient to amortize the principal of amounts so borrowed over a period not exceeding fifty years. The original conditions under which loans were made to the Authority under section 25 of the Act required the payment of interest only, in the first three full years of operation (through the year ending December 31, 1962) and thereafter payment of annual amounts sufficient to amortize over a period of forty-seven years (or by December 31, 2009) all loans and interest thereon. The terms of the Authority's financing arrangements were amended in 1961, in 1963, and again in 1964 and now call for repayment of all interest-bearing loans together with interest previously deferred and all other interest accrued or accruing up to December 31, 1966, together with current interest thereon, in forty-three equal annual instalments commencing December 31, 1967.

At December 31, 1964 the Authority's indebtedness to the Government of Canada amounted to \$433,497,000, represented by interest-bearing loans of \$348,500,000, interest-free loans of \$6,000,000 and deferred interest of \$78,997,000. The accumulated deficit from operations totalled \$65,107,000, an increase of \$13,482,000 for the year.

Some measure of relief to the Authority from this financial burden, caused in part by the suspension of tolls on the Welland Section in 1962, was obtained when Parliament provided for (a) the conversion as of January 1, 1965 of \$21,800,000 of the Authority's indebtedness pertaining to the Welland Canal to an interest-free loan, and (b) the payment as of January 1, 1965 to the Authority of \$27,073,000 in respect of the accumulated Welland deficit incurred by the Authority for the calendar years 1959-1964. Future annual operating losses of the Welland Section are expected to be met from parliamentary appropriations.

Following refinancing of the Welland Canal debt as at January 1, 1965, the Authority's indebtedness on the Montreal-Lake Ontario Section of the Seaway amounted to \$362,832,000. If the Authority is to meet its obligations under the Act it will require average annual revenues of \$22 million. Tolls and other income on the Montreal-Lake Ontario Section in 1964 amounted to only \$14 million.

The agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the St. Lawrence Seaway. The agreement provides that the division of tolls revenue derived from the operation of the St. Lawrence River Section of the Seaway shall be initially 71% to the Authority and 29% to the Corporation, provided, however, that these percentages shall be adjusted from time to time so that the Authority and the Corporation shall receive a proportion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway.

Calculations made by the Authority in accordance with the formula contained in the agreement indicate that the Authority should be receiving 73% of the tolls revenue and the Corporation 27%. Negotiations begun in 1963 with the Corporation to effect an adjust-

ment in the division of this revenue have not yet been concluded. If the tolls revenue for the 1964 season had been shared on the basis of adjusted percentages, the Authority's portion would have been greater by \$380,000.

Under the 1959 agreement, the Authority and the Saint Lawrence Seaway Development Corporation were to report to their respective Governments by July 1, 1964 on the adequacy of the tariff of tolls to provide sufficient revenue to meet their operating costs and financial obligations. However, the Governments of Canada and the United States agreed to defer the date on which the entities were to report from July 1, 1964 to July 1, 1966. The Governments agreed that the joint review of the tariff of tolls is to be continued and that, at the conclusion of the two-year extension, tolls proposals are to be related as realistically as possible to the financial requirements of the Seaway entities.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in paragraph (c) of section 16 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty-year period of the principal of the amounts borrowed, together with interest, as required by subsections (a) and (b) meets the requirements of the Act. Accordingly, no provision for depreciation has been included in the costs of the year.

Provision was made during the year for the cost of replacing machinery and equipment, including lock, bridge and building machinery and equipment, in the amount of \$865,000. The Reserve for Replacement of Machinery and Equipment as thus augmented amounted to \$4,822,000 at December 31, 1964. No provision has been made in the accounts for the replacement of buildings, lock gates and lock and bridge structures. The Authority considers that these Seaway works can be maintained in working condition at all times under its maintenance program.

In the payment of grants in lieu of taxes, the Authority is guided by the practices of the Municipal Grants Division of the Department of Finance. When canal lands were transferred from the Department of Transport to the Authority in 1959, the Authority continued to pay grants in lieu of taxes on the properties transferred to it according to the valuations previously established and agreed upon with the municipalities by the Municipal Grants Division. The areas on which grants have been made include all lands under the Authority's control, whether firm lands, artificially flooded lands, part of the bed of the canal or part of naturally submerged lands. Increased assessments have been accepted from time to time on various canal lands based on averaged value of adjoining firm lands some one thousand feet on both sides. The Authority pays approximately \$30,000 in annual grants in lieu of taxes on land covered by water at the Lake Ontario and Lake Erie entrances to the Welland Canal and at the St. Mary's River entrances to the Sault Ste. Marie Canal. In 1964 accepted valuations for submerged lands at the Welland Canal entrances totalled \$359,612 including \$292,809 for 46.7 acres (over half of which is said to be naturally submerged) at \$6,270 per acre.

In the course of our audit, a question was raised concerning the payment of grants on submerged lands. The members of the Authority have decided that the Authority will

continue to pay grants on naturally submerged lands at the valuations previously accepted, but that no further increase in valuation for these lands will be accepted. A decision has yet to be reached by the Authority with respect to other lands covered by water.

In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute \$250,000 towards the cost of extending the collector sewer which was then being constructed as the main part of the Authority's remedial works on the south shore of the St. Lawrence River. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the \$250,000 contribution. The sewer extension was completed in 1963 at a cost of \$480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties.

Following the initial reports of a firm of traffic management consultants who were engaged to study the cause of traffic congestion on the Welland Canal, plans for the immediate twinning of the single locks of the Welland Canal, which had been announced in connection with the amendment to the St. Lawrence Seaway Authority Act to provide \$180,000,000 for the twinning of the locks, were revised and a decision was made to implement those recommendations of the consultants which would reduce delays and increase the capacity of the canal at the earliest date. An increase of 40% in capacity is expected by the opening of the 1967 navigation season as a result of changes proposed by the consultants, compared to the previously announced 60% increase expected from the twinning of the locks.

Order in Council P.C. 504 of March 1, 1932 provided for the construction by the Beauharnois Light, Heat and Power Company and transfer to the Crown of a canal suitable for navigation. The canal was conveyed to the Crown in 1932.

Under the terms of a 1932 agreement drawn in accordance with the provisions of the Order in Council, the Company, which has since been taken over by the Quebec Hydro-Electric Commission, is responsible for certain operating and maintenance expenses of the canal. In 1959 this canal became part of the St. Lawrence Seaway and the Authority incurred costs which were recoverable from the Commission.

In 1964, the Commission paid the Authority \$32,000 to cover the maintenance costs for the years 1959, 1960 and 1961. As to the costs for 1962 and 1963 amounting to \$23,000, and subsequent years, the Commission stated that, by virtue of provincial legislation passed in 1962, it did not feel there was any obligation on its part to cover the costs incurred by the Authority under the 1932 agreement. The legislation is Chapter 27 of the Statutes of Quebec, 1962, being an Act to dissolve Beauharnois Light, Heat and Power Company. Section 3 of the Act reads:

The Quebec Hydro-Electric Commission shall carry out all the contracts legally entered into by Beauharnois Light, Heat and Power Company and still in force, and shall perform all the obligations thereof.

Nothing in this section, however, shall oblige the Quebec Hydro-Electric Commission to carry out any contract made between Beauharnois Light, Heat and Power Company and Her Majesty in the right of Canada, or to perform any obligation imposed by the latter.

We were informed that, in the opinion of the Authority, the balance remains payable since the Commission's obligation as successor to the Beauharnois Light, Heat and Power Company was not affected by the provincial Act dissolving the Company.

Settlement of the outstanding issues with respect to the Beauharnois Canal now appears to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and capital expenditures relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1964	1963
Expense—		
Operation and maintenance	\$ 1,837,000	\$ 2,860,000
Grants in lieu of municipal taxes	421,000	638,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals.....	355,000	462,000
	2,613,000	3,960,000
Income from rentals, wharfage, etc.	625,000	559,000
	1,988,000	3,401,000
Operating deficit.....		
Capital expenditures	293,000	164,000
Operating deficit and capital expenditures (recovered from parlia- mentary appropriations)	\$ 2,281,000	\$ 3,565,000

The decrease of \$1,347,000 in expense for 1964 was due mainly to the non-recurrence of the following items charged in 1963: (a) special grants of \$473,000 to municipalities for assuming responsibility for part of the Welland Feeder Canal that had not been used for navigation since 1924; and (b) repairs to two bridges over the Lachine Canal at a cost of \$508,000. Grants in lieu of taxes amounted to \$421,000 compared with \$638,000 in 1963 when retroactive payments were made.

In 1959 the administration of the Cornwall Canal was transferred from the Department of Transport to the Authority which then assumed responsibility for payment of grants in lieu of taxes to the City of Cornwall. In January 1965 it was discovered that a parcel of land expropriated in 1955 had been taken into account twice by the Authority in calculating the grants, with the result that the City of Cornwall had been overpaid \$130,000 over a period of five years. Negotiations for recovery are still in progress.

Properties transferred in 1959 from the jurisdiction of the Department of Transport to that of the Authority included "that portion of the Ontario-St. Lawrence Canals remaining in service after the flooding of the pool above the power dam at Cornwall". No former canal remains in service above the dam, but the Authority, for the convenience of the Department of Transport, administers certain properties above the dam and charges the expenditures incurred to the appropriation provided to the Authority for the operation of the non-toll canals. The major expenditure, amounting to approximately \$6,000, is for annual grants paid to three municipalities in lieu of taxes.

Capital expenditures of \$293,000 include \$282,000 for the purchase of a property with frontage on Cornwall Canal land. A reference to this expenditure is contained in paragraph 125 of this Report.

210. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Companies Act, pursuant to section 24A of the St. Lawrence Seaway Authority Act, as a subsidiary of The St. Lawrence Seaway Authority for the purpose of operating and managing the international toll bridge between Cornwall, Ontario, and Rooseveltown, New York, on behalf of the owners, The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Seaway entities have an equal interest in the assets of the Corporation and each has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Saint Lawrence Seaway Development Corporation, the annual income from operation of the bridge system, after payment of operating expenses, is to be applied first towards the amortization of the cost of the North Channel Bridge, together with interest, after which the balance of the income is to be divided equally between the Seaway entities.

The following is a summary of the Corporation's operations for the last two years:

	Year ended December 31	
	1964	1963
Income—		
Bridge tolls.....	\$ 371,000	\$ 367,000
Other.....	15,000	20,000
	<u>386,000</u>	<u>387,000</u>
Expense—		
Salaries, wages and employee benefits.....	119,000	113,000
Rental of toll collection machines.....	13,000	13,000
Maintenance materials and services.....	11,000	15,000
Grant in lieu of municipal taxes.....	11,000	11,000
Advertising.....	9,000	14,000
Other.....	24,000	28,000
	<u>187,000</u>	<u>194,000</u>
Net income—transferred to The St. Lawrence Seaway Authority.	<u>\$ 199,000</u>	<u>\$ 193,000</u>

The amount of \$199,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost of the North Channel Bridge, together with interest, leaving an unamortized balance of \$9,140,000 at December 31, 1964. It will be noted by reference to paragraph 209 that the amount transferred did not cover the interest charges of \$445,000 for the year on the indebtedness of the Authority with respect to the North Channel Bridge.

Departmental Operating Activities

211. Our Reports for several successive years have pointed out that although the Financial Administration Act requires that Crown corporations prepare specified statements of accounts annually, there is no statutory direction respecting the preparation of appropriate financial statements by departments and non-corporate agencies engaged in trading or servicing activities. The usual procedure has been to confine reporting to the inclusion of the revenue from such activities among the other items of revenue in the Public Accounts, while the expenditure reporting has been associated with the relevant parliamentary appropriations. Where Parliament has authorized the operation of revolving funds for the purpose of acquiring and managing stores, etc., statements summarizing the transactions in the funds are also included in the Public Accounts.

Over the past several years we have expressed the view that Parliament should be provided with clearer information concerning the actual financial results of departmental trading and servicing activities. To that end, and without necessarily disturbing the bases of reporting presently followed, we have stressed the desirability of including in the Public Accounts financial statements for the various activities showing the overall results of operations clearly and concisely. The statements contemplated would be on the accrual basis and include charges for the amortization of building and equipment costs, interest on funds employed, the value of services provided without charge by other departments, etc. The form of presentation would permit a reconciliation between the operating results on this basis and those recorded on the cash basis. Also contemplated is the preparation of balance sheets to show the financial position of the activities at the year-end. The Audit Office would be prepared to examine and certify such statements.

Our view received the support of the Public Accounts Committee which in its Fifth Report 1961 stated that "it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, were overall financial statements included in the Public Accounts without undue cost or staff increases". Again, in its Fourth Report 1963 the Committee reiterated this belief and the Auditor General was requested "to continue to keep development of this objective under close surveillance and to report to the Committee in due course". (See Appendix 1, item 2.)

The Royal Commission on Government Organization also pointed out that the appropriation accounts kept on a cash basis do not adequately reflect the financial results of the operating activities carried on by many departments. The Commission recommended that the financial results of departmental operating activities be prepared and presented in a more informative manner, not only to assist Parliament but also to aid management in the control of its costs.

The paragraphs which follow illustrate how a number of the larger departments and agencies involved in trading or servicing activities have already reached or are progressing towards the development of financial statements along these lines. It will be noted that the publishing activities of the Queen's Printer have been treated separately from public printing and stationery activities. The latter, formerly the responsibility of the Department of Public Printing and Stationery, are now the responsibility of the Department of Defence Production.

212. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, R.S., c.4, and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

In response to the recommendation of the Public Accounts Committee in its Fifth Report 1961, overall financial statements, including the estimated cost of major services provided without charge by government departments, were prepared by the Agricultural Products Board. These have been examined and certified by us and are to be found in the Public Accounts (Volume II, pages 1.36 to 1.38).

The proprietary equity of the Government of Canada at the year-end was represented by inventories, at cost, consisting of: 3,735,000 pounds of dry skim milk valued at \$473,000; and 229,000 dozen whole eggs and 177,000 pounds of dried eggs valued at \$274,000.

A summary of the results of operations for the years ended March 31, 1965 and 1964 follows:

	Year ended March 31	
	1965	1964
Sales—Dry skim milk.....	\$ 2,505,000	\$ 2,088,000
Cost of sales—		
Inventory, April 1.....	453,000	1,195,000
Purchases.....	3,026,000	2,240,000
Storage.....	36,000	78,000
Processing costs.....	35,000	—
	3,550,000	3,513,000
Less: Inventory, March 31.....	747,000	453,000
	2,803,000	3,060,000
Net loss on sales.....	298,000	972,000
Freight, cartage, handling.....	2,000	32,000
Estimated cost of major services provided without charge by government departments:		
Interest on working capital	39,000	82,000
Administration.....	5,000	5,000
Accounting and cheque issue.....	2,000	2,000
	46,000	89,000
Total loss.....	\$ 346,000	\$ 1,093,000

The loss for the year was met to the extent of \$300,000 by funds provided by Department of Agriculture Vote 85d, and to the extent of \$46,000 by major services provided without charge by government departments.

Only two agricultural products, first grade dry skim milk and grade A eggs, were purchased during the year. The Board purchased 25,340,000 pounds of dry skim milk, at eleven cents per pound, from exporters and resold the product, at a lower price, to the same exporters without taking possession. Payment of the differential of four cents per pound on 1,408,000 pounds and one cent per pound on 23,932,000 pounds, aggregating \$296,000, was made to the relative exporters on presentation of export documents. The Board's stock of dry skim milk declined by 119,000 pounds which was sold to the Department of External Affairs for donations to other countries. The eggs were acquired as part of the World Food Program and none were sold.

213. *Agricultural Stabilization Board.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are met through annual parliamentary appropriations.

The proprietary equity of the Government of Canada at the year-end of \$21,834,000 was represented by inventories, at estimated market value, consisting of 44,555,000 pounds of butter, \$21,961,000, and 3,650,000 pounds of pork, \$1,102,000, offset in part by advances from customers and accounts payable aggregating \$1,229,000.

For a number of years the Board experienced a mounting surplus in stocks of butter since very little opportunity was found for substantial export sales. However, during 1964 generally poor production conditions prevailed in Europe. It was thus possible to dispose of the residual stocks accumulated from 1958 to 1962 to the extent that the inventory of butter decreased by 102.2 million pounds from the 146.7 million pounds held on March 31, 1964.

The results of the Board's activities for the year ended March 31, 1965 are summarized as follows:

Trading operations—

Cost of products sold.....	\$ 92,799,000
Revenue from sales.....	80,622,000
Net loss on sales.....	12,177,000
Cost of products destroyed by fire.....	87,000

Net loss on trading operations.....	\$ 12,264,000
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—by commodities—

	Sales	Cost of Sales	Net loss
Butter.....	\$ 71,633,000	\$ 83,111,000	\$ 11,478,000
Pork.....	193,000	273,000	80,000
Cheese.....	8,796,000	9,502,000	706,000
	<u>\$ 80,622,000</u>	<u>\$ 92,886,000</u>	<u>\$ 12,264,000</u>
Deficiency payments—			
Eggs.....			986,000
Wool.....			553,000
Sour cherries.....			300,000
Other.....			1,000
			<u>1,840,000</u>
Payments for stabilization of prices—			
Butterfat content of milk and cream.....			35,497,000
Milk used for cheddar cheese.....			4,339,000
Dried casein and caseinates.....			1,941,000
			<u>41,777,000</u>
Estimated cost of major services provided without charge by government departments—			
Interest on working capital.....			4,815,000
Administration.....			564,000
Accounting.....			182,000
Accommodation.....			33,000
Contribution to Public Service Superannuation Account.....			16,000
Carrying of franked mail.....			7,000
Employee surgical-medical insurance premiums.....			1,000
Employee compensation payments.....			1,000
			<u>5,619,000</u>
Net loss for the year.....			<u>\$ 61,500,000</u>

The loss for the year together with the balance of loss of \$2,555,000 brought forward from the previous year was met to the extent of \$57,118,000 by funds provided by Department of Agriculture Vote 80d, and to the extent of \$5,619,000 by major services provided without charge by government departments. The balance of the loss, \$1,318,000, was deducted from the proprietary equity of the Government of Canada on the balance sheet of the Board.

During the year, two fires occurred in warehouses containing Board products and losses of butter valued at \$23,000, and pork valued at \$64,000, were charged to trading operations.

Toward the close of the year, the Board received reports of thefts involving 64,000 pounds of butter valued at \$33,000 stored in warehouses located in the Province of Quebec. The Board obtained a legal opinion to the effect that under circumstances of forcible entry, the warehouse proprietors would not be liable. This loss will be written off as a charge to operations in the ensuing year.

214. *Airport operations.* The capital investment of the Department of Transport in airports as at March 31, 1965 was \$629,007,000 compared with \$605,596,000 at the same date in the preceding year, a net increase of \$23,411,000 for the year.

The revenue from civil aviation airport operations for the year amounted to \$22,441,000 compared with \$16,971,000 for the preceding year. Details of this revenue, together with comparable figures for the preceding year, are as follows:

	Year ended March 31	
	1965	1964
Aircraft landing fees—		
Domestic.....	\$ 3,822,000	\$ 3,609,000
Trans-oceanic.....	6,243,000	3,478,000
Trans-border.....	992,000	992,000
Other.....	27,000	15,000
	<u>11,084,000</u>	<u>8,094,000</u>
Rentals—		
Office, shop and garage space.....	2,298,000	1,425,000
Living quarters.....	364,000	361,000
Hangar.....	173,000	183,000
Other.....	1,189,000	1,036,000
	<u>4,024,000</u>	<u>3,005,000</u>
Concessions—		
Gasoline and oil.....	2,063,000	1,927,000
Other.....	3,160,000	2,200,000
	<u>5,223,000</u>	<u>4,127,000</u>
Miscellaneous revenue.....	2,110,000	1,745,000
Total revenue.....	<u>\$ 22,441,000</u>	<u>\$ 16,971,000</u>

The provision for "Airports and Other Ground Services—Operation and Maintenance" (included in Department of Transport Vote 35) was charged with expenditures totalling \$24,114,000 for the year 1964-65, an increase of \$3,833,000 over the corresponding figure of \$20,281,000 for the preceding year. The excess of expenditure (excluding new construction) on airways and airports over the revenue received was therefore \$1,673,000, a decrease of \$1,637,000 from the preceding year's figure of \$3,310,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual

basis for its operations at 17 of the major airports, which together account for approximately 91% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes. A consolidation of these statements, which includes a provision for depreciation of civil aviation facilities (though not for the other costs referred to), for the year ended March 31, 1965 is given as an appendix to the Department's section in Volume II of the Public Accounts.

215. *Board of Grain Commissioners for Canada.* This Board operates under the authority of the Canada Grain Act, R.S., c. 25, and is composed of a chief commissioner and two other commissioners appointed by the Governor in Council. The Board has jurisdiction to inquire into any matter relating to grading, weighing and storage of grain, unfair or discriminatory operation of any elevator, and any other matter arising out of the performance of the duties of the Board.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1965	1964
Expenditure—		
Salaries, allowances, etc.....	\$ 4,465,000	\$ 4,496,000
Contributions to Public Service Superannuation Account.....	260,000	249,000
Rent.....	189,000	192,000
Travel.....	148,000	158,000
Printing and stationery.....	65,000	54,000
Other.....	314,000	269,000
	<u>5,441,000</u>	<u>5,418,000</u>
Revenue—		
Inspection.....	2,360,000	2,034,000
Weighing.....	1,159,000	1,005,000
Registrations and cancellations.....	67,000	58,000
Licences.....	28,000	28,000
Sundry.....	4,000	4,000
	<u>3,618,000</u>	<u>3,129,000</u>
Excess of expenditure over revenue.....	<u>\$ 1,823,000</u>	<u>\$ 2,289,000</u>

The practice of sampling wheat in railway cars at Calgary, Edmonton and Winnipeg was discontinued during the year and sampling is now done at the Lakehead or tidewater. A slight reduction in staff has resulted.

The fees chargeable for inspection and weighing services are, for the most part, based on volume of grain. The increased earnings from these services are attributed to the increase in the movement of grain due to the sale of wheat to Russia.

In previous Reports we have pointed out that the fees charged for the various services provided by the Board had not been revised since 1949, although the costs of performing these services had been steadily increasing. With effect from August 1, 1965, the fees to be charged for inspection and weighing services have been increased by 50% (see Appendix 1, item 12).

Estimated costs, aggregating \$294,000, for contributions to the Public Service Superannuation Account and other employee benefits, which have been provided without charge by government departments, are included as expenditure of the Board.

216. *Canadian Government Elevators.* The Canadian Government Elevators comprise six elevators, located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, and are managed and operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, R.S., c. 25, and Order in Council P.C. 1372 of August 19, 1925.

The proprietary equity of the Government of Canada in the Elevators at March 31, 1965 was \$11,115,000, represented by fixed assets costing \$10,543,000, advances for recoverable freight charges, \$93,000, and working capital, \$479,000.

The following is a summary of the results of operations for the year with comparable amounts for the preceding year:

	Year ended March 31	
	1965	1964
Operating revenue—		
Storage.....	\$ 480,000	\$ 558,000
Elevation.....	446,000	343,000
Cleaning.....	143,000	91,000
Screenings.....	102,000	75,000
Drying.....	75,000	17,000
Other.....	51,000	20,000
	<u>1,297,000</u>	<u>1,104,000</u>
Expense—		
Salaries and wages.....	911,000	886,000
Grants in lieu of taxes.....	151,000	195,000
Power.....	96,000	84,000
Maintenance—buildings, plant and equipment.....	72,000	149,000
Head office expenses.....	71,000	59,000
Contributions to Public Service Superannuation Account.....	51,000	58,000
Employees' surgical-medical insurance and compensation.....	7,000	7,000
Other.....	49,000	35,000
	<u>1,408,000</u>	<u>1,473,000</u>
Operating loss, without provision for depreciation.....	<u>\$ 111,000</u>	<u>\$ 369,000</u>

Normal practice in the grain trade is to allow free storage for the first five days on all grains received. The rapid turnover of wheat resulting from the large volume of sales abroad was the main factor in the decline in revenue from storage. During 1964-65 the Elevators handled 2,420,000 bushels of rapeseed compared with 472,000 in the previous year. The rate for elevation of rapeseed is $5\frac{1}{8}$ cents per bushel whereas the rate charged for wheat is only $1\frac{5}{8}$ cents per bushel. The increased number of bushels of rapeseed handled during 1964-65 accounts for the increased revenue from elevation. The condition of the grains received, especially rapeseed, was such that exhaustive cleaning was required resulting in an increase in the revenue from cleaning and screenings.

During 1963-64 grants in lieu of taxes were increased and the adjustment was made retroactive to January 1, 1961. The restoration of concrete bins was completed in 1963-64, at a cost of \$86,000, and no extensive repairs were undertaken during 1964-65.

The loss of \$65,000 by the Lethbridge elevator was its twentieth consecutive annual loss. The accumulated deficits during this period have amounted to \$885,000.

Estimated costs, aggregating \$58,000, for contributions to the Public Service Superannuation Account and other employee benefits, which have been provided without charge by government departments, are included as items of expense of the Elevators.

217. *National Film Board.* This Board was established in 1939 by the National Film Act, R.S., c. 185, for the purpose of initiating and promoting the production and distribution of films in the national interest. In accordance with section 18 of the Act, the National Film Board Operating Account in the Consolidated Revenue Fund has been credited with amounts provided by annual parliamentary appropriations for "Administration, Production, and Distribution of Films and Other Visual Materials" (National Film Board, Vote 1), with amounts transferred from appropriations of other government departments in respect of work undertaken for them, and with income from the sale and rental of films and other visual materials. All expenditures made by the Board have been charged to the Account, with the exception of expenditures on capital equipment acquired for its own use which have been charged to a separate appropriation. Included in the expenditures charged to the Account are the costs of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by the National Film Board Vote L30, Appropriation Act No. 5, 1963.

The equity of the Crown in the Board at March 31, 1965 was \$2,441,000 compared with \$1,820,000 at the end of the previous year. The equity consisted of a balance of \$1,109,000 in the National Film Board Operating Account, including \$94,000 for the Canadian Government Photo Centre equipment, and \$1,332,000, being the cost of the Board's capital equipment less accumulated depreciation and disposals.

The following is a comparative summary of expense and income for the past two years:

	Year ended March 31	
	1965	1964
Expense—		
Production of films and other visual materials.....	\$ 3,480,000	\$ 3,068,000
Distribution of films.....	2,654,000	2,413,000
Cost of production of films and other visual materials for government departments and others.....	2,744,000	1,631,000
Estimated cost of major services provided without charge by government departments.....	1,091,000	1,099,000
Administration and general services.....	1,017,000	963,000
Canadian Government Photo Centre—net loss.....	12,000	—
Depreciation on equipment.....	344,000	349,000
	<u>11,342,000</u>	<u>9,523,000</u>
Income—		
Sales of films and other visual materials.....	3,120,000	1,844,000
Rentals and royalties.....	724,000	757,000
Miscellaneous.....	50,000	29,000
	<u>3,894,000</u>	<u>2,630,000</u>
Net expense.....	<u>\$ 7,448,000</u>	<u>\$ 6,893,000</u>
Net expense provided by:		
Parliamentary appropriations.....	\$ 6,013,000	\$ 5,445,000
Major services provided without charge by government departments.....	1,091,000	1,099,000
Depreciation.....	344,000	349,000
	<u>\$ 7,448,000</u>	<u>\$ 6,893,000</u>

The gross expense of the Board increased by \$1,819,000, or 19% over the total for the previous year. This was mainly due to an overall increase of \$1,525,000 in the combined production costs of films and other visual materials, of which \$1,113,000 related to sponsored productions undertaken for government departments and agencies and \$412,000 to the expansion of the regular production program.

The income of the Board increased by \$1,264,000, or 48% over that of the previous year. This was due largely to various special projects undertaken during the year for the Canadian Corporation for the 1967 World Exhibition, the Centennial Commission, and certain government departments.

The estimated cost of accommodation, contributions to the Public Service Superannuation Account and other employee benefits, accounting, cheque issue and other services provided to the Board without charge by government departments, is included in a single amount of \$1,091,000 in the Statement of Income and Expense, a corresponding

analysis being shown in the lower part of the statement. We have recommended to the management that the costs of these services be integrated as soon as practicable into the costing system to produce accurate costs as well as to render possible a more realistic and complete presentation of the various costs of production and administration of the Board in its annual financial statements.

The Canadian Government Photo Centre which was established in 1964 for the purpose of co-ordinating the Government's still photographic activities, began operations in Ottawa on December 1, 1964. For the four-month period ended March 31, 1965 the operations of the Centre showed a profit of \$4,700 but there were preliminary expenses of \$16,700, the net result being a loss of \$12,000 which was absorbed by the Board.

On the recommendation of a Board of Survey constituted in accordance with section 60 of the Financial Administration Act, the Board deleted from its inventory obsolete and damaged stores having a cost value of \$4,024. These stores formed part of the assets of the National Film Board Operating Account and their deletion resulted in a deficiency in that Account. A provision of section 18(5) of the National Film Act is that "no amount may be credited to the Account to meet the deficiency except pursuant to an appropriation by Parliament for that purpose". Notwithstanding this prohibition, the amount of the deficiency was credited to the Account and charged to the National Film Board appropriation for "Administration, Production and Distribution of Films and other Visual Materials" which, in our opinion, is not "an appropriation by Parliament for that purpose" within the meaning of section 18(5) of the National Film Act.

218. *Post Office activities.* The following is a summary of Post Office transactions recorded in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1965 in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1965	1964
Gross postal revenue.....	\$ 263,704,000	\$ 235,808,000
Less: Expenses paid from revenue.....	33,268,000	35,091,000
Net postal revenue.....	230,436,000	200,717,000
Miscellaneous.....	53,000	57,000
	<u>230,489,000</u>	<u>200,774,000</u>
Expenditures from parliamentary appropriations—		
Operations.....	135,375,000	135,609,000
Transportation.....	69,056,000	65,952,000
Administration, financial services, etc.....	6,028,000	5,334,000
	<u>210,459,000</u>	<u>206,895,000</u>
Excess of revenue over expenditure.....	<u>\$ 20,030,000</u>	<u>\$ (6,121,000)</u>

The Department estimates that, of the \$27.9 million increase in gross postal revenue, approximately \$8.8 million was due to increases in registration and special delivery fees effective November 1, 1963 and in C.O.D. fees and third class matter rates effective April 1, 1964.

The recorded excess of revenue over expenditure of \$20,030,000 did not take into consideration the cost of services provided without charge by other government departments. These costs were estimated at \$35,825,000 and comprised the following: accommodation, \$25,298,000; contributions to the Public Service Superannuation Account and to employee surgical-medical insurance premiums, \$9,681,000; accounting and cheque issue services, \$584,000; and employee compensation payments, \$262,000. Credits for carrying mail franked by and sent to other government departments and Members of Parliament estimated at \$4,210,000 were also excluded. Had this unrecorded expenditure and revenue been taken into account, there would have been an operating deficit for the year of \$11,585,000 instead of an excess of revenue over expenditure of \$20,030,000.

219. *Public Printing and Stationery activities.* Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged exclusively with the following duties in relation to services required for the Senate and House of Commons and the several departments of the Government:

- (a) the execution and audit of all printing, stereotyping, electrotyping, lithography, binding work, or work of the like nature, and the procuring of the material therefor;
- (b) the purchase and distribution of all paper, books and other articles of stationery of whatsoever kind, except books that are required for the Library of Parliament, and printed books required for the use of the chaplains, libraries or schools in the penitentiaries which may be procured in the manner authorized by law;
- (c) the sale of all books or publications issued by order of either or both Houses of Parliament or by any department of the Government; and
- (d) the audit of all accounts for advertising.

For the purpose of carrying out the provisions of the Act, a working capital advance (Queen's Printer's Advance) is authorized under section 37 of the Act to enable the Queen's Printer to purchase material for the execution of orders given or requisitions made under the provisions of the Act, and to pay the wages of workmen engaged in the execution of such orders or requisitions. Administrative expenses and capital expenditures are provided for by annual parliamentary appropriations.

With a view to implementing certain recommendations made by the Royal Commission on Government Organization, the Governor in Council under the Public Service Rearrangement and Transfer of Duties Act, transferred the powers, duties and functions of the Department of Public Printing and Stationery in 1963-64 as follows:

July 25, 1963

Order in Council P.C. 1963-1130 provided for the transfer to the Minister of Industry of the powers, duties or functions of the Secretary of State of Canada under the Public Printing and Stationery Act.

August 21, 1963	Order in Council P.C. 1963-1254 provided for the transfer to the Department of Defence Production of the control or supervision of the Procurement Purchasing and Stores Branch, the Production Branch, the Outside Printing Production Branch, and the supporting services contained in the Departmental Secretary's Branch, the Administrative Services Branch and the Financial Services Branch of the Department of Public Printing and Stationery.
October 3, 1963	Order in Council P.C. 1963-1450 provided for the transfer from the Department of Defence Production to the Department of Public Printing and Stationery of the responsibility for the procurement of print for books and publications.
February 3, 1964	Order in Council P.C. 1964-156 provided in part for the transfer to the Secretary of State of Canada of the powers, duties or functions of the Minister of Industry relating to the Department of Public Printing and Stationery.

The effect of the foregoing is that the functions of the Department of Public Printing and Stationery, with the exception of the publication and distribution of books and publications which were returned to the Department, have been assigned to the Department of Defence Production, as follows: (a) the Canadian Government Supply Service which administers the Procurement Purchasing and Stores Branch, and (b) the Canadian Government Printing Bureau which operates the main printing plant in Hull, Que. and the outside printing plants.

Existing legislation governing printing and stationery has remained substantially unchanged since 1886. Many of the provisions of the Public Printing and Stationery Act are no longer applicable or have proven impracticable. For example:

- (1) The Department of Public Printing and Stationery today administers only a small segment of the duties with which it is charged by the Act.
- (2) The qualification requirements for appointments to the several positions set forth in the Act are not always adhered to and the officers appointed are not always in charge of the functions set out in the statute.
- (3) Section 14 of the Act provides for the establishment of the Printing Bureau in Ottawa but the plant has been located in Hull, Que. for many years and printing units are located in various parts of the country.
- (4) The position of Superintendent of Stationery is no longer occupied.
- (5) The responsibility for the audit of all advertising accounts was transferred to the Comptroller of the Treasury in 1954 and remains there.
- (6) The responsibility placed on the Queen's Printer by the Act for the examination and certification of certain railway accounts has been carried out by the Canadian National Railway Company for years.
- (7) The Act requires the Auditor General annually or more frequently at his discretion to cause the stock of stationery, printing materials and supplies in store to be checked with the quantity purchased and supplied. Printing units are located at 18 different centres in Canada outside of Ottawa and stationery and printing stocks have been merged with the stores inventories of the Canadian Government Supply Service, a branch of the Department of Defence Production. For these reasons it is impracticable to provide the type of specific audit certificate required by section 34(2) of the Public Printing and Stationery Act.

We are informed that draft legislation is in course of preparation designed to implement the changes already approved by the Governor in Council. We understand that it will also correct the anomalies referred to above.

The basic operating expenses of the stores and printing activities are charged to the Queen's Printer's Advance under section 37 of the Public Printing and Stationery Act. The Act provides that "the amount of outstanding advances to the Queen's Printer, after deducting therefrom all amounts due to him by either House of Parliament or by the several departments shall at no time exceed the sum of four million dollars". This authority has been divided between the Canadian Government Supply Service and the Canadian Government Printing Bureau. However, as separate accounting departments were set up only in the last quarter of the year, the form of the financial statements at March 31, 1965 remains substantially the same as in previous years.

The following is a summary of the operations of the Queen's Printer's Advance for the year together with comparable figures for the previous year:

	Year ended March 31	
	1965	1964
Sales.....	\$ 21,363,000	\$ 19,639,000
Deduct: Cost of sales.....	20,698,000	19,372,000
Profit on sales.....	665,000	267,000
Discount earned, etc.....	13,000	9,000
Profit (due to the Receiver General).....	\$ 678,000	\$ 276,000

In determining this profit no provision has been made for the cost of services and facilities such as light, power, telephone, heating, amortization of building and equipment costs, etc., provided by other government departments and by Department of Defence Production appropriations. A comparison of the expenditures from Department of Defence Production appropriations with those of the preceding year is as follows:

	Year ended March 31	
	1965	1964
Purchasing, stationery and stores (largely for salaries and wages of procurement and stationery stores personnel and repairs to office equipment).....	\$ 1,389,000	\$ 1,228,000
Directorate of Printing		
Administration.....	565,000	636,000
Plant, equipment and replacements.....	336,000	83,000
Gratuities to families of deceased employees.....	1,000	—
	\$ 2,291,000	\$ 1,947,000

In accordance with section 58 of the Financial Administration Act, the profit of \$678,000 was transferred to revenue—"Return on Investments". This unusually large

profit arose because of the considerable increase in productive hours caused by the extra volume of work resulting from the long session of Parliament. It was earned partially by the Canadian Government Printing Bureau (\$580,000) and by the Canadian Government Supply Service (\$98,000).

At March 31, 1965 the amounts due the Department of Defence Production as a result of sales made to the House of Commons and to the several departments by the Canadian Government Printing Bureau and the Canadian Government Supply Service were as follows:

	Printing Bureau	Supply Service	Total
Agriculture.....\$	46,000	\$ 29,000	\$ 75,000
Citizenship and Immigration.....	53,000	25,000	78,000
Defence Production.....	21,000	39,000	60,000
Finance.....	125,000	104,000	229,000
House of Commons.....	700,000	17,000	717,000
Labour.....	103,000	2,000	105,000
Mines and Technical Surveys.....	50,000	11,000	61,000
National Defence.....	475,000	337,000	812,000
National Revenue.....	60,000	43,000	103,000
Post Office.....	48,000	33,000	81,000
Secretary of State.....	190,000	4,000	194,000
Trade and Commerce.....	336,000	33,000	369,000
Transport.....	44,000	19,000	63,000
Queen's Printer (Publications).....	383,000	5,000	388,000
Others*.....	398,000	717,000	1,115,000
Total	<u>\$ 3,032,000</u>	<u>\$ 1,418,000</u>	<u>\$ 4,450,000</u>

*Includes an amount of \$497,000 unbilled to departmental customers at the year-end.

An analysis of the accounts receivable showed that an amount of \$615,000 had been outstanding for more than sixty days. It appears, therefore, that a more aggressive follow-up on collections should be initiated by the Department. Instances were noted where delays in payment were due to the debtor departments being without funds pending the passing of supplementary estimates.

In accordance with section 34(2) of the Public Printing and Stationery Act we reported to the Minister of Defence Production on our examination of the stores on hand. Included in the year-end inventories were obsolete or unserviceable stores in the amount of \$41,000. These stores are held by the Canadian Government Supply Service and no action had been taken at the year-end to have them deleted under section 60 of the Financial Administration Act. The value of the inventory on hand at March 31, 1965, \$2,900,000, included an unrealized profit of \$19,000 due to the fact that some stores are valued for inventory purposes at standard cost instead of at actual cost (see paragraph 231).

In the year 1961-62, 247 typewriters purchased through the revolving fund at a cost of \$53,000 were supplied to the House of Commons on an annual rental basis of 5% of the cost. As at March 31, 1965, the recoverable balance was \$44,000. It is clear that a rental charge of 5% of cost per annum is insufficient to recover the original cost of these machines before they are worn out.

220. *Queen's Printer—publishing activities.* According to the provisions of the Public Printing and Stationery Act, R.S., c. 226, and Orders issued by the Governor in Council under the Public Service Rearrangement and Transfer of Duties Act, the Department of Public Printing and Stationery is now charged solely with the function of procurement of print for books and publications and with the distribution of parliamentary and departmental publications. These operations include the printing of the Canada Gazette, the Statutes of Canada and publications required by the Government and the general public.

The Department operates with funds provided by parliamentary appropriations. Major services, such as carrying franked mail, accommodation, etc., are supplied free of charge by other departments.

A summary of expenditure and revenue for the year, together with comparable figures for the preceding year, follows:

	Year ended March 31	
	1965	1964
Expenditure—		
Parliamentary appropriations:		
Administration.....\$	177,000	\$ 141,000
Printing and binding official documents.....	1,349,000	1,126,000
Distribution of official documents.....	1,041,000	690,000
Printing of Canada Gazette.....	152,000	150,000
Printing and binding annual statutes.....	14,000	40,000
	<u>2,733,000</u>	<u>2,147,000</u>
Approximate value of major services provided without charge by other departments:		
Accommodation.....	260,000	264,000
Accounting and cheque issue.....	32,000	31,000
Contributions to Public Service Superannuation Account....	61,000	63,000
Employee surgical-medical insurance premiums.....	6,000	6,000
Employee compensation payments.....	1,000	1,000
Carrying of franked mail.....	554,000	378,000
	<u>914,000</u>	<u>743,000</u>
	<u>3,647,000</u>	<u>2,890,000</u>
Revenue—		
Proceeds from sales.....	1,853,000	1,763,000
Service fees for art work performed for other government departments.....	12,000	—
Commissions on sales of publications issued by international organizations of which Canada is a member nation.....	19,000	33,000
Royalties from copyrights on government publications.....	77,000	68,000
	<u>1,961,000</u>	<u>1,864,000</u>
Excess of expenditure over revenue.....\$	<u>1,686,000</u>	<u>\$ 1,026,000</u>

Parliamentary appropriations were charged with \$2,733,000 during the year, an increase of \$586,000 or 27% over the preceding year, due mainly to an increase in publishing activities. Included in the costs of printing and binding official documents are expenditures of \$80,000 to cover the cost of documents which were distributed free to Members

of Parliament and to organizations approved by the Governor in Council. The gross revenue of \$1,961,000 is an increase of \$97,000 over the previous year due principally to increased sales to the general public.

The Queen's Printer has been provided with a revolving fund to facilitate payment for the printing of publications by commercial printers. This fund, which is not to exceed \$250,000 at any time, is reimbursed by the departments for which the printing is being done. Transactions during the year involved payments of \$657,000 and receipts of \$461,000. Accounts receivable at March 31, 1965 amounted to \$196,000, all of which have since been paid.

The sales operation of the Department is handled by a mail order office located in Hull, Que. and by six government bookstores operating in various cities in Canada. The first bookstore was opened in Ottawa on March 23, 1960. Other stores were later opened in the following cities: Toronto (April 6, 1961), Montreal (March 29, 1962), Winnipeg (January 15, 1965) and Vancouver (March 23, 1965). The bookstore located in the National Gallery at Ottawa was taken over by the Department on April 1, 1961.

The inventories of publications held at the government bookstores at March 31, 1965 were estimated at \$264,000 on a retail value basis. Departmental attempts to reconcile the value of the publications in each store with the memorandum control account maintained at headquarters reveal that present controls are inadequate and would neither prevent nor detect accounting errors and theft of books. A review of departmental inventory audits has disclosed substantial overages and shortages of physical stocks each year. No remedial action has been taken in most instances, except to adjust the headquarters' memorandum control account in order to reflect the physical counts made at the bookstores during the audit. There is no dollar value inventory control account for publications maintained at the bookstores.

To correct this situation the bookstores must be brought under proper control and the managers held responsible for discrepancies. Our views regarding this unsatisfactory situation have been made known to the Department.

Shipments to bookstores originate in the bulk store located in the Printing Bureau in Hull, Que. The warehousing function of the bulk store has been under the control and supervision of the Canadian Government Supply Service of the Department of Defence Production since the early part of 1965. Because of the quantity and the substantial dollar value involved, immediate attention should be given to instituting proper control procedures.

In addition to the stock held in the bulk store and at the bookstores, quantities of publications are held on a consignment basis for various international organizations of which Canada is a member nation. No inventory control records have been established and as a result the current value of stock on consignment is not known. The Treasury Board on June 3, 1965 agreed to the Queen's Printer's proposal that purchases of publications and related material from the United Nations, UNESCO, and the International Atomic Energy Agency for re-sale in the government bookstores should be paid for through "firm accounts" in place of consignment accounts with these organizations.

221. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Transactions in gold, silver and other metals acquired by the Mint for its operations are recorded in revolving fund accounts. The following is a summary of these accounts for the year in comparison with corresponding amounts for the preceding year:

	Year ended March 31	
	1965	1964
Inventories at beginning of year.....	\$ 29,401,000	\$ 27,212,000
Purchases—		
Gold.....	102,005,000	98,296,000
Silver.....	12,777,000	14,782,000
Other metals.....	3,487,000	1,675,000
	<u>118,269,000</u>	<u>114,753,000</u>
	147,670,000	141,965,000
Sales—		
Gold.....	104,825,000	96,072,000
Silver coin at face value.....	27,369,000	20,176,000
Other coin at face value.....	8,629,000	5,513,000
Silver bullion.....	57,000	86,000
Sundry.....	—	17,000
	<u>140,880,000</u>	<u>121,864,000</u>
Gold revaluation.....	11,000	1,000
	<u>140,891,000</u>	<u>121,865,000</u>
	6,779,000	20,100,000
Transfers to revenue—		
Gain on coinage operations.....	11,909,000	9,276,000
Gold refining gain.....	16,000	25,000
	<u>11,925,000</u>	<u>9,301,000</u>
Inventories at end of year.....	\$ 18,704,000	\$ 29,401,000

The Public Accounts record as revenue of the Department of Finance the transfer of \$11,925,000 from the revolving fund accounts and other Mint revenue of \$3,107,000, a total of \$15,032,000 for the year ended March 31, 1965 compared with \$10,624,000 for 1963-64. Offset against this are expenditures charged to parliamentary appropriations under the Department of Finance totalling \$2,662,000, comprising the following: administration, operation and maintenance, \$2,572,000 (\$2,192,000 in 1963-64); and construction or acquisition of equipment, \$90,000 (\$419,000 in 1963-64).

The net result is an excess of revenue over expenditure for the year 1964-65 of \$12,370,000 compared with \$8,013,000 for 1963-64, an increase of \$4,357,000. These recorded results do not, however, take into consideration such expenses as interest on

funds employed or services provided without charge by other departments such as accommodation, security, contributions to the Public Service Superannuation Account, employees' surgical-medical insurance premiums, accounting and cheque issue services, and employee compensation payments.

During the year the gain on coinage operations increased by \$2,633,000 over the comparable figure for the previous year due to an increase of 217,397,779 in the number of coins issued, from 435,568,416 to 652,966,195 pieces, while sundry revenue decreased by \$51,000. Service fees increased by \$1,826,000 largely as a result of the greater number of uncirculated coin sets sold and an increase, effective January 1, 1965, in the selling price from \$3 to \$4 a set.

Special Audits and Examinations

222. In addition to the examinations of departmental accounts and the audits of the accounts of Crown corporations, already referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes: The Army Benevolent Fund Board, Atlantic Development Board, The Canada Council, the Custodian, Economic Council of Canada, Exchange Fund Account, Municipal Development and Loan Board, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Roosevelt Campobello International Park Commission, Royal Canadian Mint stocks, Unemployment Insurance Fund and Yukon Territorial Government.

223. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, R.S., c. 10, and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid:

to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

- (a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];
- (b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal government sources;
- (c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing and
- (d) amounts paid out of the Fund are not recoverable, unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1965 pursuant to section 11 of the Act and the audit report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to \$222,000 of which \$210,000 was derived from interest on deposits with the Receiver General and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$451,000 consisting of \$351,000 in grants to or on behalf of World War II veterans and \$100,000 for service and administrative expenses. The latter amount was after deducting a grant of \$18,000 from the Department of Veterans Affairs and a fee of \$34,000 received from the Canadian Army Welfare Fund for managing the financial program of that Fund.

After absorbing the excess of disbursements over receipts in the amount of \$229,000, the Fund amounted to \$5,552,000 at March 31, 1965 of which \$5,291,000 was on deposit with the Receiver General, \$256,000 was invested in Government of Canada bonds and \$5,000 was in the form of accountable advances and prepaid expenses.

224. *Atlantic Development Board.* This Board was established by the Atlantic Development Board Act, 1962-63, c. 10. The objects of the Board are to inquire into and report to the responsible Minister upon programs and projects for fostering the economic growth and development of the Atlantic region of Canada, to consider, report and make recommendations to the Minister concerning programs and projects and, with the approval of the Governor in Council, to enter into agreements respecting the use of the Atlantic Development Fund in financing or assisting in financing, to a maximum of \$100 million, projects that will contribute to the growth and development of the economy of the Atlantic region and for which satisfactory financing arrangements are not otherwise available. The Atlantic Development Fund, established by section 16 of the Act, is a special account in the Consolidated Revenue Fund to which are credited such amounts as are from time to time required by the Board for the carrying out of its programs and projects and to which are charged the payments made in respect of them.

The following is a summary of the transactions in the Fund showing the projects approved and funds disbursed as at March 31, 1965:

Types of projects	Approved by the Governor in Council	Funds disbursed	Outstanding commitments
Power	\$ 44,000,000	\$ 1,648,000	\$ 42,352,000
Trunk highway systems	9,000,000	1,762,000	7,238,000
Basic industrial services	1,660,000	232,000	1,428,000
Research facilities	3,000,000	—	3,000,000
	<u>\$ 57,660,000</u>	<u>\$ 3,642,000</u>	<u>\$ 54,018,000</u>

The Board's administrative expenses and expenditures on technical and economic surveys and studies for the year ended March 31, 1965 were financed by parliamentary appropriations of the Department of the Secretary of State (Votes 20 and 20d). Accom-

modation and accounting services were provided without charge by government departments. The following is a comparative summary of expenditures for the past two years:

	Year ended March 31	
	1965	1964
Administrative expenses—		
Salaries.....	\$ 100,000	\$ 66,000
Employee benefits.....	6,000	4,000
Travel and removal.....	17,000	14,000
Accommodation.....	15,000	14,000
Accounting services.....	8,000	6,000
Other.....	10,000	8,000
	156,000	112,000
Technical and economic surveys and studies.....	519,000	105,000
Total expenditure.....	\$ 675,000	\$ 217,000

225. *The Canada Council.* The Council was established by the Canada Council Act 1957, c. 3, to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

A report on the audit of the Council's accounts for the year ended March 31, 1965, was made to the Council and to the Secretary of State, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act (except for capital assistance grants to universities in respect of building construction projects which are made from the University Capital Grants Fund). Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performance and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The following is a summary of the Endowment Fund operations for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1965	1964
Surplus at April 1.....	\$ 82,000	\$ 83,000
Income—interest and dividends.....	3,154,000	3,086,000
	3,236,000	3,169,000
Expenditure—		
Grants.....	2,661,000	2,586,000
Canadian National Commission for UNESCO.....	88,000	82,000
Administrative and other expenses, less expenses recovered....	437,000	419,000
	3,186,000	3,087,000
Surplus at March 31.....	\$ 50,000	\$ 82,000

A University Capital Grants Fund of \$50 million was established by the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants are paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1965	1964
Balance at April 1.....	\$ 11,499,000	\$ 25,944,000
Add:		
Interest earned on investments.....	790,000	1,111,000
Net profit on disposal of securities.....	95,000	270,000
	12,384,000	27,325,000
Deduct:		
Authorized grants.....	2,085,000	15,826,000
Balance at March 31.....	\$ 10,299,000	\$ 11,499,000

During the year ended March 31, 1964 the Council allocated to qualifying institutions the amount of \$15,130,000 which represented the accumulated interest and profits earned by the University Capital Grants Fund from its inception to September 30, 1963. Grants authorized by the Council from this allocation totalled \$7,040,000 during 1963-64 and further grants amounting to \$1,440,000 were authorized during 1964-65. A total of \$5,552,000 has been paid in respect of grants from interest and profits to March 31, 1965. No allocation of interest and profits was made during the year.

In our 1964 Report (paragraph 174) reference was made to the method employed in the allocation of the interest and profits, to the qualification of our report to the Council and to the Secretary of State for the year ended March 31, 1964, and to the Sixth Report 1964 of the Public Accounts Committee wherein it was recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund (see Appendix 1, item 30). We remain of the opinion that the method of allocation used by the Council is not in accordance with section 17(2) of the Canada Council Act, and our report to the Council and to the Secretary of State for the year ended March 31, 1965 was again qualified to that extent.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. Moneys or property received by the Council pursuant to this section are accounted for within a separate balance sheet designated "Special Funds". This balance sheet has two sections, the first of which records the receipt and disbursement of comparatively small gifts which

are accounted for within the Endowment Fund, while the second section relates to the following Funds from which only the income may be disbursed for the purposes designated:

1. The amount of \$1,079,000 received in March 1963 in connection with an anonymous gift of \$4,250,000 to be paid to the Council over a period of several years was augmented by an additional \$131,000 received in April 1964. The income from the amounts received is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada.
2. A gift of \$600,000 received from the Molson Foundation in 1963 to establish a capital fund referred to as the Molson Prize Fund the income from which is to be used for making cash awards of \$15,000, normally two in each year, to authors or creators of works or to persons who have rendered service to Canada in the fields of the arts, humanities and social sciences which will enrich the cultural or intellectual heritage of the nation, or make a noteworthy contribution to understanding and unity among Canadians of French and English descent.

For investment purposes the two funds have been combined and are represented by one portfolio. The income of \$106,000 produced by the investments was allocated to the two funds according to the ratio which each fund bore to the total principal and surplus of the funds as at April 1, 1964. A summary for the year follows:

	Special Scholarship Fund	Molson Prize Fund	Total
Surplus at April 1, 1964.....	\$ 3,000	\$ 1,000	\$ 4,000
Income—interest and dividends.....	71,000	35,000	106,000
	<u>74,000</u>	<u>36,000</u>	<u>110,000</u>
Expenditure—			
Grants and awards.....	66,000	15,000	81,000
Administration charge.....	2,000	2,000	4,000
	<u>68,000</u>	<u>17,000</u>	<u>85,000</u>
Surplus at March 31, 1965.....	<u>\$ 6,000</u>	<u>\$ 19,000</u>	<u>\$ 25,000</u>

The expenditure of \$15,000 under the Molson Prize Fund represents the payment of the second instalments of two awards made in the preceding year. No awards were made from this fund during the year. The Council approved the assessing of an administration fee of \$2,000, for the financial year ended March 31, 1965, against the income of each of the Special Funds to cover the expenses of administering them.

Appropriation Act No. 2, 1965, assented to on April 3, 1965, included provision in Vote 18d of the appropriations for the Department of the Secretary of State for a special grant of \$10 million to the Canada Council to be used for the general purposes set out

in section 8 of the Canada Council Act. The grant was received by the Council after the close of its financial year on March 31, 1965 and consequently is recorded as a receipt in the 1965-66 accounts of the Council.

226. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Effective from May 15, 1964, the Deputy Registrar of Canada acts as the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1964 was made to the Secretary of State.

The assets vested in the Custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$771,000 to \$3,080,000 at December 31, 1964. A transfer of \$350,000 to the Minister of Finance for the War Claims Fund, and releases of assets valued at \$874,000 to former owners or their beneficiaries or other rightful claimants, offset in part by an appreciation of \$474,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations referred to above, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

All fees and any income received from vested assets which consist of, or are converted into, cash or Government of Canada bonds are credited to the Custodian's Office Administration Account, from which all expenses of the Office are paid. Since becoming responsible for the audit of the Custodian's accounts in 1947, this Office has repeatedly drawn attention to this procedure because it is one which is not consistent with the treatment of income arising from other assets vested in the Custodian.

From September 2, 1939 to December 31, 1964 the Custodian has accumulated a surplus of \$4,700,000—largely invested in Government of Canada bonds—in his Office Administration Account. On September 22, 1965 we suggested to the Deputy Minister of Finance that consideration be given to whether the surplus cash resources being managed by the Custodian should be transferred to the Consolidated Revenue Fund, with the Custodian's administrative expenses being provided in future by parliamentary appropriation. Consideration was also invited to whether the other cash resources might be managed more effectively if they were held in an open account in the Consolidated Revenue Fund. We were informed that the suggestions would be examined.

AUDITOR GENERAL'S REPORT

The following is a summary of the income and expense of the Custodian for the year together with comparable figures for the preceding year:

	Year ended December 31	
	1964	1963
Income—		
Fees on assets released from administration.....	\$ 10,000	\$ 9,000
Interest on investments.....	206,000	199,000
Interest on bank deposits.....	9,000	16,000
	<u>225,000</u>	<u>224,000</u>
Expense—		
Salaries.....	81,000	108,000
Ex gratia payment.....	5,000	—
Other expense.....	12,000	11,000
	<u>98,000</u>	<u>119,000</u>
Surplus.....	\$ <u>127,000</u>	\$ <u>105,000</u>

The income from fees on assets released from administration did not increase proportionately with the value of assets released during the year, due to a comparatively large settlement having been made without fee. The increase in interest on investments was due mainly to an increase of \$11,000 in net discounts on purchases and sales of bonds offset by a reduction in interest earned for the year, whereas the decrease in bank interest resulted from the outflow of cash from among the vested assets as releases of assets from administration were effected. The decrease in salary costs resulted mainly from staff reductions that had been effected during the prior year. The ex gratia payment was made by Executive order, on the recommendation of the Department of External Affairs, to the widow of a former diplomatic representative to Canada whose assets of like value had been seized by the Custodian, liquidated, and the proceeds transferred to the Minister of Finance for credit to the War Claims Fund.

227. *Economic Council of Canada.* The Council, with headquarters in Ottawa, was established by the Economic Council of Canada Act, 1963, c. 11, to advise how Canada can achieve the highest possible levels of employment and efficient production. At March 31, 1965, the Council comprised a chairman, two directors and twenty-five other members broadly representative of different sectors and groups in the Canadian economy.

Pursuant to section 20 of the Act, we have audited the accounts and financial transactions of the Council and have reported thereon, under date of June 11, 1965, to the Council and the Secretary of State.

The following is a summary of the expenses of the Council for its first full year of operation ending March 31, 1965:

Salaries.....	\$ 643,000
Professional and special services.....	68,000
Travel.....	66,000
Rent.....	63,000
Contributions to Public Service Superannuation Account and employee insurance..	41,000
Stationery, supplies, telephone.....	36,000
Other.....	30,000
	<u>\$ 947,000</u>

Of the total expense of \$947,000, an amount of \$834,000 was provided by Privy Council Vote 35 and \$113,000 was the estimated value of major services provided without charge by government departments.

228. *Exchange Fund Account.* The Exchange Fund Account, which was originally established by the Exchange Fund Act, 1935, c.60, "to aid in the control and protection of the external value of the Canadian monetary unit", and continued by the Foreign Exchange Control Act, 1946, c.53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c.315.

Pursuant to section 27 of the Currency, Mint and Exchange Fund Act we have audited the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1964, and have addressed a report thereon to the Minister of Finance. This section also requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and the records of the Account show truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the last two years:

	Year ended December 31	
	1964	1963
Balance at January 1.....	\$ 2,751,594,000	\$2,686,227,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of previous year's earnings.....	62,594,000	35,227,000
	<u>2,689,000,000</u>	<u>2,651,000,000</u>
Add:		
Advances (net).....	48,000,000	38,000,000
Earnings on investments (to be paid into the Consolidated Revenue Fund).....	63,552,000	62,594,000
Balance at December 31.....	<u>\$ 2,800,552,000</u>	<u>\$ 2,751,594,000</u>

AUDITOR GENERAL'S REPORT

	Year ended December 31	
	1964	1963
Represented by:		
Canadian dollars.....	\$ 1,241,000	\$ 78,000
United States dollars and securities.....	1,705,869,000	1,898,188,000
International Monetary Fund note.....	16,236,000	—
Gold.....	1,108,876,000	883,500,000
Suspense account.....	62,000	110,000
	<hr/> 2,832,284,000	<hr/> 2,781,876,000
Surplus.....	31,732,000	30,282,000
	<hr/> \$ 2,800,552,000	<hr/> \$ 2,751,594,000

The United States dollar holdings were valued at \$1.08108 (par) at December 31, 1964 and as a result the surplus was \$19,195,000 greater than if the closing market rate of \$1.07375 had been used.

In our 1964 Report we referred to our previous recommendation with respect to the Exchange Fund Account and to the statement of the Minister of Finance to the Public Accounts Committee on July 21, 1964. The Public Accounts Committee made the following recommendation (Appendix 1, item 23) in its Sixth Report 1964:

The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund.

The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

Parliamentary authority to transfer to the Consolidated Revenue Fund the net profit arising from trading operations and investment, as described in the Committee's Sixth Report 1964 referred to above, was not obtained during the year and accordingly

the net profit on these transactions in 1964 is reflected in the surplus of the Account which increased by \$1,450,000 from \$30,282,000 at December 31, 1963 to \$31,732,000 at December 31, 1964.

229. *Municipal Development and Loan Board.* This Board was established by the Municipal Development and Loan Act, 1963, c.13. The purpose of the Act is to promote increased employment in Canada through financial assistance by way of loans to municipalities to augment or accelerate municipal capital works programs. The Board may not accept applications for or approve loans after March 31, 1966, and the total amount of all loans approved is limited to \$400 million.

The Act requires the Board to forgive payment of 25% of the principal amount of the loan where the municipal project is completed to the satisfaction of the Board on or before March 31, 1966 and 25% of the portion of the loan advanced at that date if the project is not completed.

Loan applications by municipalities require provincial approval. Four provinces, Quebec, Ontario, Manitoba and Saskatchewan, have entered into agreements with the Board, as provided in the Act, for provincial administration of programs. In these cases loans are made by the Board to the provinces to enable them to make loans to municipalities in respect of municipal projects under the same terms and conditions as apply in the case of loans made by the Board directly to municipalities.

Funds for the Board's 1964-65 administrative expenses were provided by a parliamentary appropriation (Department of Finance Vote 45). Expenses for the year amounted to \$145,000 compared with \$60,000 for seven months in the previous year.

As at March 31, 1965, 1,323 loans to provinces and municipalities amounting to \$242,607,000 had been approved by the Board. Loans disbursed totalled \$10,183,000 of which \$708,000, being 25% of the loans against 69 completed projects, had been forgiven pursuant to section 11 of the Act. Outstanding loan commitments at March 31, 1965 amounted to \$232,424,000.

Section 12 of the Municipal Development and Loan Act provides that the Governor in Council, on the recommendation of the Minister of Finance, may from time to time prescribe the rate of interest to apply in respect of loans under the Act. Such interest is payable directly to the Department of Finance. Section 9(2) stipulates that it shall be a condition of any loan to a municipality in respect of a municipal project that the debentures to be issued to the Board by the municipality in respect of the municipal project will bear interest at the rate applying pursuant to section 12 on the date the loan is approved by the Board.

Although an interest rate of $5\frac{3}{8}\%$ was prescribed by Order in Council P.C. 1963-918 of December 27, 1963 for the period January 1 to March 31, 1964, 21 loans totalling 2,404,000 were approved during this period with an interest rate of $5\frac{1}{4}\%$ (the rate in effect prior to January 1). This was in accordance with a decision of the Board on December 18, 1963 in respect of loans in process when there is a change in the interest rate. With reference to the four provinces with agreements for provincial administration, it was decided that the Board would accept loan applications at the former rate, up to several days after the

interest rate changes, provided the province's commitment to the municipality was made in the previous quarter. With reference to loan applications from the six provinces without agreements, it was decided that the interest rate would be the rate in effect at the time an acceptable application was received by the Board. However, when the interest rate was reduced from $5\frac{3}{8}\%$ to $5\frac{1}{4}\%$ on January 1, 1965, the statutory provision was applied to loans for which applications had been received prior to January 1.

230. *National Gallery of Canada.* The Gallery was incorporated under the National Gallery Act, R.S., c. 186. Its objects and powers comprise the development, maintenance, care and management of the National Gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

Pursuant to section 9 of the National Gallery Act, the accounts for the year were examined and a report was addressed to the Secretary of State.

The following is a comparative summary of expenditure for the past two years:

	Year ended March 31	
	1965	1964
Administration, operation and maintenance—		
Salaries and wages.....	\$ 393,000	\$ 351,000
Accommodation.....	427,000	502,000
Protective and other special services.....	200,000	185,000
Other.....	516,000	334,000
	<hr/> 1,536,000	<hr/> 1,372,000
Purchases of works of art.....	192,000	323,000
	<hr/> \$ 1,728,000	<hr/> \$ 1,695,000

The operating expenses of the National Gallery are met largely from parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the National Gallery Special Operating Account are also used to acquire works of art and \$2,000 was expended for this purpose in 1965.

As stated in our Reports for the last three years, parliamentary control may be weakened by the supplementing of specific appropriations by expenditures from the National Gallery Special Operating Account, and by crediting to the Special Operating Account fees from exhibitions and lectures, proceeds from the sale of slides and photographs and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.

231. *Public Printing and Stationery stores.* Section 34(2) of the Public Printing and Stationery Act, R.S., c. 226, requires the Auditor General to "annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied". During the year, as in prior years, such tests were made as we considered necessary to establish that the controls were operating satisfactorily. In addition, we participated in the physical inventory checking by departmental personnel. A report on the examinations was made to the Minister of Defence Production (see paragraph 219).

At March 31, 1965 the inventories of stationery, printing materials and supplies held by the Department totalled \$2,900,000. A comparison with those at the end of the preceding year is as follows:

	March 31	
	1965	1964
Printing materials and supplies		
Paper.....	\$ 491,000	\$ 468,000
Printing supplies.....	277,000	258,000
Maintenance stores.....	158,000	165,000
Printing sub-stores—Main Plant.....	124,000	110,000
Miscellaneous.....	42,000	41,000
	1,092,000	1,042,000
Work in process.....	858,000	874,000
Stationery, office equipment and parts		
Stationery stores.....	804,000	471,000
Typewriters and office machine parts.....	146,000	154,000
Miscellaneous.....	—	6,000
	950,000	631,000
	<u>\$ 2,900,000</u>	<u>\$ 2,547,000</u>

232. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c. 33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six members is responsible for the management and administration of the Fund. As required by the Act, the National Research Council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose head office is in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1965, which contained no qualification, was made to the Board and to the Prime Minister as required by the Act.

AUDITOR GENERAL'S REPORT

The Act provided \$1 million for the Fund and also permits the Board to accept gifts for its purposes. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1965	1964
Balance at April 1.....	\$ 1,076,000	\$ 1,049,000
Earnings on investments.....	58,000	58,000
Gifts.....	—	1,000
	58,000	59,000
	1,134,000	1,108,000
Awards approved during year.....	78,000	32,000
Less: Cancellation of award approved in preceding year.....	4,000	—
	74,000	32,000
Balance at March 31.....	\$ 1,060,000	\$ 1,076,000

Two categories of awards have been approved by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. During the year the maximum stipend was increased from \$5,000 to \$6,000 per annum, with the basic stipend remaining at \$3,500 per annum. In addition, where applicable, a Fellow may receive a children's allowance and a travel grant. Two new and three renewal Fellowships totalling \$27,200 were awarded during the year. The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 per annum for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. One such appointment was made during the year and provision for the \$45,000 which it is expected will be ultimately expended was made in the Fund's accounts. The Fund continues to support three appointees of prior years and the outstanding liability of \$40,000 in this connection was included in the total provision of \$116,000 for awards approved, appearing in the Balance Sheet of the Fund at March 31, 1965.

233. *Roosevelt Campobello International Park Commission.* The Roosevelt Campobello International Park had its origin in the donation of the Roosevelt cottage and surrounding grounds on Campobello Island, New Brunswick, to Canada and the United States of America as a memorial to President Franklin Delano Roosevelt. Subsequent negotiations between the two countries culminated in a joint agreement of acceptance being signed on January 22, 1964. Establishment of the Commission was followed by the enactment in each country of the required legislation, the Roosevelt Campobello International Park Com-

mission Act (1964-65, c. 19) being assented to in Canada on June 30, 1964 and proclaimed on August 14, 1964. The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

As auditor appointed by resolution at a meeting of the Commission in February 1965, we examined the accounts of the Commission and reported thereon on June 29, 1965.

For the period from its establishment on August 14, 1964 to March 31, 1965, expenses, mainly comprising salaries and wages, aggregated \$13,000. The operating expenses of the Commission are recoverable in equal shares from the Governments of Canada and the United States of America. During the initial period of organization funds to finance the Commission were advanced by the Department of External Affairs of Canada and the Province of New Brunswick.

234. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of, and are examined with, departmental revenue and expenditure. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315, requires that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". We inspected these stores as at January 31, 1965 and reported thereon to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at January 31, 1965 amounted to \$16,946,000 comprising: gold \$2,812,000, silver \$13,272,000, bronze \$723,000, nickel \$93,000, and other metals \$46,000.

235. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1955, c. 50 (superseding 1940, c. 44) provides for insurance against unemployment and for the maintenance of a national employment service. To the end of 1964-65, the Act was wholly administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. With effect from April 1, 1965, the powers, duties and functions of the Commission relating to the national employment service were transferred to the Department of Labour under authority delegated to the Governor in Council by Department of Labour Vote 7a of Appropriation Act No. 10, 1964.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers and federal government contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, are credited, and to which benefits and other payments under the Act are charged.

Financial statements showing the state of the Fund at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Commission. In our 1960 and subsequent Reports attention was drawn to the fact that the Act does not require that these financial statements be audited. The Public Accounts Committee made reference to this in its Fifth Report 1961, Fourth Report 1963 and Fourth Report 1964 (see Appendix 1, item 11) recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended, the Commission has submitted its financial statements for the

past four years to the Audit Office for examination, and the statements for the year ended March 31, 1965, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 22.22 to 22.24.

The following is a comparative summary of the Fund's transactions for the past three years, together with the year-end balances at the credit of the Fund:

	1962-63	1963-64	1964-65
Receipts—			
Contributions from employers and employees.....	\$ 286,430,000	\$ 296,586,000	\$ 310,751,000
Contributions from Government of Canada.....	57,286,000	59,317,000	62,150,000
Other income.....	2,570,000	1,172,000	1,914,000
	<u>346,286,000</u>	<u>357,075,000</u>	<u>374,815,000</u>
Disbursements—			
Benefit payments.....	403,191,000	365,655,000	335,030,000
Interest on advances.....	—	238,000	163,000
	<u>403,191,000</u>	<u>365,893,000</u>	<u>335,193,000</u>
Excess of disbursements over receipts.....	\$ 56,905,000	\$ 8,818,000	
Excess of receipts over disbursements.....			\$ 39,622,000
Balance at credit of the Fund.....	\$ 9,693,000	\$ 875,000	\$ 40,497,000

The annual disbursements shown above do not include the administrative expenses of the Commission which are financed out of parliamentary appropriations for the Commission (Department of Labour Vote 30) in accordance with section 10 of the Act. These expenses amounted to \$54,254,000 in 1964-65 compared with \$48,684,000 for the preceding year. Also not included are: the value of accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation Account, accounting services provided by the Comptroller of the Treasury and other services provided by government departments, all of which were estimated at \$10,410,000 for 1964-65 as against \$10,034,000 for 1963-64.

The increase of \$5,570,000 in administrative expenses in the year was largely accounted for by increases in salaries and wages of \$4,504,000, publicity \$281,000, postage \$221,000, office supplies \$186,000, and communication services \$163,000. Costs associated with a new program of registration of employees begun during 1963-64 to replace an inadequate system of numbering persons insured under the Unemployment Insurance Act and designed, as well, to serve the needs of the Canada Pension Plan, accounted for \$617,000 of the increase in salaries and wages, \$263,000 of the increase in publicity costs and \$299,000 of the increases in other costs. The increase in salaries and wages, other than that attributable to the registration program, resulted from an increase of almost 400 in full-time staff which took place commencing in the latter part of 1963-64 following relaxation of the restriction imposed on staff hiring, and from a general salary increase granted in 1964-65 which was retroactive to the preceding fiscal year. The increase in postage is largely the result of the gradual extension of the system of paying benefits by mail.

The new registration program which has cost \$1,966,000 to March 31, 1965 will be virtually completed by the end of 1965-66. Because early adoption of a Canada Pension Plan appeared imminent, the Commission, in conjunction with its program of assigning new numbers to all employees insured under the Act, was requested to solicit the registration of non-insured persons as well. The cost of processing these additional registrations, together with the extra publicity costs arising out of the need to acquaint this segment of the public with the program, has resulted in costs being charged to the Unemployment Insurance Commission appropriation for administrative expenses in excess of those required to carry out the purposes of the Unemployment Insurance Act.

Reference is made in paragraph 72 of this Report to the regional payment centre established in Winnipeg during the year which, with the use of electronic data processing equipment, was to handle payment of unemployment insurance benefits for the Prairie Region. The installation was not a success and was abandoned in June 1965.

In 1964-65 receipts of the Unemployment Insurance Fund exceeded disbursements, marking a reversal in the series of annual deficits that have occurred in the seven preceding fiscal years. The surplus in the year's operations amounted to \$39,622,000 compared with deficits of \$8,818,000 in 1963-64 and \$56,905,000 in 1962-63. This substantial improvement, which is a continuation of an upward trend which commenced in 1961-62, is attributable to fewer benefit payments and shorter benefit periods although there has been a slight increase in the average weekly benefit paid in each year. Comparisons follow:

	1962-63	1963-64	1964-65
Average monthly percentage of the insured population drawing benefit.....	8.1%	7.2%	6.1%
Number of initial benefit claims allowed.....	1,292,476	1,197,421	1,135,931
Average number of benefit weeks paid.....	13.4	13.1	13.0
Average weekly benefit rate paid.....	\$ 24.27	\$ 24.49	\$ 24.55

For the second successive year there was an occasion during the year when the resources of the Fund were exhausted. When this happened the amounts required to discharge the Fund's liabilities were obtained by Government of Canada loans which were authorized to a maximum of \$55,000,000 by Appropriation Act No. 2, 1964 (Department of Labour Vote L27e). Borrowings reached a maximum of \$26,500,000 on May 29, 1964 and were fully repaid by July 17, 1964.

All security transactions of the Fund in the year were in a special Government of Canada issue which is redeemable at par subject to 30 days' prior notice, and thus no gains or losses on sales were incurred.

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Prompt attention was given to all audit observations raised and corrective action was taken where called for. Our examinations are designed primarily to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the pro-

visions of the Act and regulations is also tested. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff.

No attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's internal audit division.

236. *Yukon Territorial Government.* The Yukon Act, 1952-53, c. 53, provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the government of the Territory in those fields normally within provincial jurisdiction.

The accounts relating to the receipt and expenditure of territorial funds and of money appropriated by Parliament for the Territory are subject to examination by the Auditor General of Canada, in accordance with section 26 of the Act. There is no requirement for the preparation of annual financial statements, nor for their certification by the Auditor General as the statutory auditor, but the Department of Northern Affairs and National Resources has advised that it proposes to recommend amending legislation to rectify this. Pending the enactment of such legislation, the Commissioner has submitted for audit examination the annual financial statements prepared by the Territory for publication in its Public Accounts, and we have agreed to furnish audit certificates with respect to these statements.

The following is a summary of expenditure and revenue of the Yukon Territorial Government for the year ended March 31, 1965, with comparable amounts for the preceding fiscal year:

	Year ended March 31	
	1965	1964
Expenditure—		
Education.....	\$ 1,606,000	\$ 1,335,000
Capital projects.....	1,595,000	2,721,000
Roads, bridges and public works.....	1,356,000	1,009,000
Yukon Hospital Insurance Service.....	668,000	684,000
Justice.....	538,000	336,000
Welfare.....	445,000	395,000
Vocational training.....	302,000	230,000
Health.....	301,000	260,000
Municipal and area development.....	290,000	244,000
Loan interest.....	267,000	206,000
Other expenditure.....	669,000	615,000
	<hr/> 8,037,000	<hr/> 8,035,000

	Year ended March 31	
	1965	1964
Revenue—		
Federal grants		
Operating.....	1,868,000	1,609,000
Loan amortization.....	434,000	314,000
	2,302,000	1,923,000
Tax revenue.....	969,000	843,000
Liquor profits.....	884,000	916,000
Licence revenue.....	286,000	271,000
Other revenue.....	316,000	268,000
	4,757,000	4,221,000
Expenditure recoveries—		
Capital projects.....	840,000	1,397,000
Roads, bridges and public works.....	821,000	617,000
Education.....	447,000	514,000
Yukon Hospital Insurance Service.....	439,000	356,000
Other recoveries.....	530,000	497,000
	3,077,000	3,381,000
	7,834,000	7,602,000
Excess of expenditure over revenue.....	\$ 203,000	\$ 433,000

Loans repayable to the federal Government at the close of the year amounted to \$6,855,000, an increase of \$681,000 over the preceding year's total of \$6,174,000.

Under the federal-territorial financial agreement for the five-year period ending March 31, 1967, Canada agreed to make certain annual payments to the Territory in return for which the Territory agreed to refrain from imposing, levying or collecting individual and corporation income taxes and succession duties. One of the payments for which the agreement provides is an amortization subsidy in respect of outstanding loans. For the year under review an amount of \$434,000 was involved, of which \$225,000 related to interest and \$209,000 was for the purpose of reducing the principal of the loans. A result of this particular annual payment is that the federal Government provides funds to cover the payment of interest to itself and also to repay amounts previously appropriated for the purpose of making the loans to the Territory.

* * * *

I should like to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

A. M. HENDERSON,
Auditor General of Canada.

November 30, 1965.

APPENDICES

- Recommendations and Observations by the Standing Committee on Public
Accounts not yet implemented or dealt with by Executive action..... Appendix 1
- Summary of Employees of the Public Service, by Departments, Crown Corpora-
tions and Other Instrumentalities authorized and on strength as at March 31,
1965 (with comparative figures as at March 31, 1964)..... Appendix 2
- Summary of Expenditure by Standard Objects for the fiscal year ended March 31,
1965 (with comparative figures for the preceding fiscal year)..... Appendix 3

**RECOMMENDATIONS AND OBSERVATIONS BY THE
STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET
IMPLEMENTED OR DEALT WITH BY EXECUTIVE ACTION**

Fourth Report 1963—presented to the House on December 19, 1963

1. **SECOND CLASS MAIL.** The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it. *See paragraph 105 of this Report.*
2. **DEPARTMENTAL OPERATING ACTIVITIES.** The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course. *See paragraph 211 of this Report.*
3. **INTERNAL FINANCIAL CONTROL.** The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities. *See paragraph 8 of this Report.*
4. **UNEMPLOYMENT ASSISTANCE.** The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field. *See paragraph 87 of this Report.*

Fourth Report 1964—presented to the House on July 28, 1964

5. **FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION.** The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as, for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament. *See paragraph 7 of this Report.*

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee had made the following immediate recommendations under paragraph 3:

- (a) *Implemented*
- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.
- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
 - (i) *Implemented*
 - (ii) brief notes explaining proposed major increases in the size of establishments.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

The Committee also recommended that consideration be given to referring the departmental Estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House. It believed such

a procedure would not only accelerate the work of the House but would contribute materially to improving parliamentary control of public funds before those funds are committed or spent. *See paragraph 9 of this Report.*

7. LIVING ALLOWANCES TO FEDERALLY-APPOINTED JUDGES. In its Fourth Report 1963 the Committee had noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It had therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

The Committee recorded that, despite this recommendation, a case had since been noted where a rate of \$100 a day was approved on May 7, 1964 by the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

The Committee reiterated the recommendation made in its Fourth Report 1963 that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought. *See paragraph 70 of this Report.*

8. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.
9. REMISSION OF SALES TAX ON OLEOMARGARINE. The Committee was concerned to learn that the undertaking given in 1949 that the Government would submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada had not been carried out. Instead, the authority provided to the Executive by section 22 of the Financial Administration Act had been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

The Committee stated that it does not consider that section 22 of the Financial Administration Act should be used in this way.

10. COST OF GASOLINE USED IN DEPARTMENTAL VEHICLES AT OTTAWA. The Committee learned from the Secretary of the Treasury Board that an alternative means of effecting savings in the purchase of gasoline was presently being considered. Having in mind the time which had elapsed since the matter was first taken under consideration, the Committee urged the Secretary of the Treasury Board to have the matter finalized at the earliest possible date. The Committee further requested that the Secretary of the Treasury Board provide it in due course with information as to the final decision in this matter and also as to the various alternatives which were considered and, with respect to those which were rejected, the reasons for such rejection.

The Treasury Board at its meeting on March 31, 1965 approved implementation of a national credit card system for Crown-owned vehicles operated by civilian Government departments and for which gasoline is now purchased from service stations. Department

of Public Works' vehicles maintaining the Northwest Highway system were not included. In order to permit implementation of the scheme the Board authorized the Department of Defence Production to enter into formal agreements with certain suppliers who had offered attractive discounts which it was estimated would result in annual savings of \$158,000.

Some of the agreements have been entered into but as of October 31, 1965 no credit cards had been issued.

11. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General. *See paragraph 235 of this Report.*

12. BOARD OF GRAIN COMMISSIONERS. In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditure of this activity had exceeded its revenue by more than \$1 million and it requested the Auditor General to keep this matter under review and report thereon to the Committee in due course.

Expenditures of the Board, including the estimated cost of \$294,000 for services provided without charge by other government departments, exceeded revenues by \$1,823,000 for the year ended March 31, 1965.

Effective August 1, 1965 the fees charged by the Board for inspection and weighing services have been increased by 50%. Had the increased rates been in effect throughout the year ended March 31, 1965, the Board's revenues would have been \$1,760,000 greater. *See paragraph 215 of this Report.*

13. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

The Committee believes that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and Crown corporations generally. The Auditor General informed the Committee that the recruitment outlook was currently satisfactory and that, barring any unforeseen developments, he believed that he could fill his presently approved staff establishment under existing arrangements by the end of the year. The Committee therefore asked him to render a further report on this situation in due course.

The Committee noted that amendments to the Financial Administration Act were to be introduced in due course and believed appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office. *See paragraph 11 of this Report.*

AUDITOR GENERAL'S REPORT

Fifth Report 1964—presented to the House on August 5, 1964
Canadian Broadcasting Corporation

14. REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House. *See paragraph 187 of this Report.*

Sixth Report 1964—presented to the House on October 20, 1964

15. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop. *See paragraph 73 of this Report.*
16. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.
17. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town.
18. EDUCATIONAL COSTS INCURRED BY THE DEPARTMENT OF NATIONAL DEFENCE. The Committee requested the Auditor General to follow this matter up to determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate.
19. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.
20. PENSION AWARDS EFFECTIVE AT EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages. *See paragraph 84 of this Report.*
21. DISCRETIONARY AWARDS OF SERVICE PENSIONS. The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible,

would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system. *See paragraph 85 of this Report.*

22. OVERLAPPING OF PENSION BENEFITS. The Committee was pleased to hear from the Deputy Minister of National Defence that it is his intention when the Canadian Forces Superannuation Act is to be amended to bring this matter to the attention of the Ministers with a view to preventing future incidents of this kind. The Committee requested the Auditor General to keep it informed as to progress made.
23. ADVANCES TO THE EXCHANGE FUND ACCOUNT. The Committee recommended that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the surplus of \$30.3 million at December 31, 1963 and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account. *See paragraph 228 of this Report.*
24. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed. *See paragraph 64 of this Report.*
25. PENSION INCREASED BY PAYMENT OF TWO SALARIES. The Committee stated it expects to see suitable amending legislation introduced in due course to protect the Public Service Superannuation Account from excessive annuity charges and requested the Auditor General to keep it fully informed.
26. RECIPROCAL TRANSFER AGREEMENTS FOR SUPERANNUATION BENEFITS. The Committee suggested that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.
27. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. *See paragraphs 167 and 202 of this Report.*

AUDITOR GENERAL'S REPORT

The Deputy Minister of Public Works advised on February 24, 1965 that the National Capital Commission is fully conversant with the various facets of this problem and is awaiting further directions from the Department of Finance in this regard. The Commission understands this recommendation places the initiative for the review on the Department of Finance.

28. **ACCOUNTS RECEIVABLE.** The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced. *See paragraph 168 of this Report.*

29. **INDIRECT COMPENSATION TO CHARTERED BANKS.** The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965. *See paragraph 62 of this Report.*

30. **THE CANADA COUNCIL.** The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund. *See paragraph 225 of this Report.*

Seventh Report 1964—presented to the House on December 7, 1964 Surplus Assets Disposal

31. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business prac-

tice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

32. While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.
33. The Committee made the following recommendations:
- (1) that every effort be made by the executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department;
 - (2) that effective with the fiscal year 1964-65 the Department of National Defence issue a statement listing or summarizing all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal of this equipment by Crown Assets Disposal Corporation; also the value obtained for other surplus material, etc., declared without value to the Corporation, and that such a statement be placed in the Public Accounts of Canada;
 - (3) that the preparation of a statement similar to the foregoing be made a requirement for each department and agency of the Government declaring material surplus for the purpose of disposing of such material during each fiscal year and that such statements likewise be placed in the Public Accounts of Canada effective with the fiscal year 1964-65; *see paragraph 10 of this Report.*
 - (4) *Implemented*

Eighth Report 1964—presented to the House on December 7, 1964

34. HOSPITAL CONSTRUCTION GRANTS. The Committee stated it shared the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

35. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations (*see paragraph 138 of this Report*) designed to clarify the Act:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

36. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (*see paragraph 139 of this Report*):

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

37. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made the following recommendations (*see paragraph 90 of this Report*):

- (a) *Implemented*
- (b) Sales of goods unclaimed at Customs—
that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.
- (c) *Implemented*
- (d) Determination of 'sale price' for sales tax purposes—
that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

38. GENERAL ELECTION EXPENDITURES. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

39. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended (*see paragraph 183 of this Report*):

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
 - (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government acting on the advice of the Auditor General.
40. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. *See paragraph 6 of this Report.*

**SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE,
BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES**

**Authorized and on Strength as at March 31, 1965
(with comparative figures as at March 31, 1964)**

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS (Note 1)—						
Agriculture—						
445	457	12	Administration Branch.....	386	419	33
4,403	3,972	(431)	Research Branch.....	3,284	3,301	17
2,123	2,097	(26)	Production and Marketing Branch.....	1,899	1,950	51
1,584	1,662	78	Health of Animals Branch.....	1,414	1,525	111
1,245	1,238	(7)	Prairie Farm Rehabilitation Administration.....	993	991	(2)
55	75	20	Prairie Farm Assistance Administration.....	53	74	21
929	879	(50)	Board of Grain Commissioners.....	817	813	(4)
193	185	(8)	Canadian Government Elevators.....	169	165	(4)
10,977	10,565	(412)		9,015	9,238	223
Atomic Energy Control Board.....						
16	16	—		14	16	2
Auditor General's Office.....						
180	221	41		160	177	17
Board of Broadcast Governors.....						
40	39	(1)		36	36	—
Chief Electoral Officer.....						
31	20	(11)		30	20	(10)
Citizenship and Immigration—						
203	221	18	Administration.....	175	189	14
217	213	(4)	Citizenship Branch.....	182	209	27
1,987	2,008	21	Immigration Branch.....	1,726	1,761	35
2,910	3,993	1,083	Indian Affairs Branch.....	2,698	3,856	1,158
5,317	6,435	1,118		4,781	6,015	1,234
The increase in employees authorized and on strength shown for the Indian Affairs Branch is due primarily to casual employees paid from funds provided for departmental projects having been omitted from the 1964 figures.						
Civil Service Commission—						
11	11	—	Commissioners and Staff.....	10	9	(1)
121	134	13	Executive Secretary (Administration and Personnel).....	87	127	40
530	476	(54)	Operations Branch.....	480	488	8
—	145	145	Bureau of Classification and Classification Branch.....	—	115	115
89	114	25	Advisory Services and Appeals Branch.....	77	98	21
47	17	(30)	Pay and Standards Branch.....	36	10	(26)
43	39	(4)	Pay Research Bureau.....	44	40	(4)
841	936	95		734	887	153
Defence Production—						
92	12	(80)	Deputy Minister's Office.....	83	10	(73)
672	867	195	Finance and Administration Branches.....	604	759	155
61	155	94	International Programs.....	55	137	82
709	901	192	Operations Branches.....	637	806	169
289	521	232	Canadian Government Supply Branches.....	260	422	162
Directorate of Printing—						
178	160	(18)	Finance and Administration.....	168	149	(19)
814	798	(16)	Production Services (Main Plant).....	720	716	(4)
470	491	21	Production Services (Outside Plants).....	408	444	36
113	111	(2)	Emergency Measures Organization.....	91	85	(6)
106	102	(4)	Emergency Measures College (formerly Civil Defence College).....	98	101	3
3,504	4,118	614		3,124	3,629	505

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SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
			DEPARTMENTS—Continued			
2,537	2,570	33	External Affairs—			
110	182	72	External Affairs.....	2,358	2,435	77
12	12	—	External Aid Office.....	98	167	69
2,659	2,764	105	International Joint Commission.....	11	11	—
				2,467	2,613	146
328	422	94	Finance—			
155	157	2	Administration.....	286	339	53
385	402	17	Comptroller of the Treasury—			
3,302	2,974	(328)	Headquarters.....	122	135	13
342	373	31	Regional Offices.....	341	401	60
150	118	(32)	Treasury Offices.....	2,980	2,966	(14)
429	427	(2)	Audit Services Branch.....	324	330	6
36	31	(5)	Cheque Adjustment Division.....	126	111	(15)
321	374	53	Central Services Branch.....	384	417	33
204	203	(1)	Securities Deposit Division.....	26	29	3
35	44	9	Royal Canadian Mint.....	310	362	52
22	22	—	Superannuation Branch.....	174	183	9
19	—	(19)	Tariff Board.....	32	42	10
4	4	—	Guaranteed Loans Division.....	19	19	—
10	10	—	Government Switchboard.....	19	—	(19)
5,742	5,561	(181)	Inspector General of Banks.....	4	4	—
			Municipal Development and Loan Board.....	7	8	1
				5,154	5,346	192
91	90	(1)	Fisheries—			
186	192	6	Administration.....	76	70	(6)
963	967	4	Field Service Administration.....	164	173	9
328	332	4	Conservation and Development Services.....	716	806	90
231	259	28	Inspection Services.....	317	311	(6)
716	770	54	Miscellaneous Services.....	196	224	28
2,515	2,610	95	Fisheries Research Board.....	655	644	(11)
				2,124	2,228	104
192	217	25	Forestry—			
476	548	72	Administration Branch.....	167	202	35
646	668	22	Forest Research Branch.....	453	521	68
204	204	—	Forest Entomology and Pathology Branch.....	617	653	36
64	39	(25)	Forest Products Research Branch.....	187	192	5
14	26	12	Maritime Marshland Rehabilitation Administration.....	45	39	(6)
1,596	1,702	106	Agricultural Rehabilitation and Development.....	11	22	11
				1,480	1,629	149
17	30	13	Governor General and Lieutenant-Governors.....	16	29	13
142			Industry—			
	13		Administration.....	125		
	14		Minister's Office.....		10	
	45		Deputy Minister's Office.....		14	
	43		Aircraft Branch.....		31	
	52		Area Development Agency.....		33	
	38		Chemicals Branch.....		22	
	69		Clothing and Textiles Branch.....		22	
	53		Electrical and Electronics Branch.....		43	
	42		Food Products Branch.....		21	
	38		Machinery Branch.....		21	
	38		Materials Branch.....		29	
	47		Mechanical Transport Branch.....		16	
	57		National Design Branch.....		20	
	35		Program Advisory Group.....		32	
	55		Shipbuilding Branch.....		19	
142	639	497	Wood Products Branch.....	125	353	228
112	112	—	Insurance.....	100	104	4

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
Justice—						
356	378	22	Administration.....	318	342	24
144	144	—	National Parole Board.....	111	114	3
3,125	3,699	574	Penitentiaries.....	3,062	3,330	268
3,625	4,221	596		3,491	3,786	295
Labour—						
225	273	48	Administration.....	208	249	41
150	146	(4)	Economics and Research Branch.....	124	128	4
77	57	(20)	Industrial Relations Branch.....	71	53	(18)
15	15	—	Civilian Rehabilitation Branch.....	11	14	3
41	43	2	Special Services Branch.....	37	40	3
12	12	—	Manpower Consultative Service.....	—	8	8
55	56	1	Technical and Vocational Training Assistance Branch.....	36	54	18
173	171	(2)	Annuities Branch.....	160	157	(3)
21	21	—	Accident Prevention and Compensation Branch.....	21	20	(1)
Unemployment Insurance Commission—						
520	630	110	Head Office.....	414	515	101
1,290	1,192	(98)	Atlantic Region.....	1,206	1,124	(82)
3,356	3,174	(182)	Quebec Region.....	3,087	2,928	(159)
3,619	3,469	(150)	Ontario Region.....	3,375	3,185	(190)
1,570	1,526	(44)	Prairie Region.....	1,485	1,434	(51)
1,207	1,188	(19)	Pacific Region.....	1,125	1,098	(27)
12,331	11,973	(358)		11,860	11,007	(853)
Legislation—						
191	204	13	Senate.....	191	191	—
945	978	33	House of Commons.....	945	950	5
61	62	1	Library of Parliament.....	59	60	1
1,197	1,244	47		1,195	1,201	6
Mines and Technical Surveys—						
271	360	89	Administration.....	240	341	101
712	734	22	Surveys and Mapping Branch.....	647	686	39
888	883	(5)	Marine Sciences Branch.....	833	788	(45)
439	457	18	Geological Survey.....	418	443	25
668	647	(21)	Mines Branch.....	604	613	9
91	111	20	Geographical Branch.....	70	90	20
167	179	12	Observatories Branch.....	148	171	23
57	61	4	Polar Continental Shelf Project.....	51	54	3
19	17	(2)	Dominion Coal Board.....	17	17	—
3,512	3,449	137		3,028	3,203	175
National Defence (Civilian Staffs)—						
685	716	31	Departmental Administration.....	590	560	(30)
1,420	1,308	(112)	Inspection Service.....	1,193	1,124	(69)
13,147	12,254	(893)	Royal Canadian Navy.....	11,776	11,085	(691)
18,620	17,731	(889)	Canadian Army.....	16,432	15,207	(1,225)
16,216	15,179	(1,037)	Royal Canadian Air Force.....	14,897	13,858	(1,039)
3,243	2,881	(362)	Defence Research Board.....	2,802	2,625	(177)
53,331	50,069	(3,262)		47,690	44,459	(3,231)
The decreases in employees authorized and on strength at March 31, 1965 result in part from the takeover by the Department of Public Works effective April 1, 1964 of the responsibility for buildings and maintenance at Fort Pepperell (185 positions) and Fort Churchill (478 positions) and for operation and maintenance of the Northwest Highway System (751 positions), a total of 1,414 positions of which 1,174 were filled at the year end.						
69	73	4	National Gallery of Canada.....	55	64	9

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SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
380	392	12	National Health and Welfare—			
540	544	4	Departmental Administration.....	335	376	41
3,124	3,399	275	Health Services.....	473	499	26
522	635	113	Medical Services.....	2,748	3,170	422
810	897	87	Food and Drug Services.....	474	599	125
5,376	5,867	491	Welfare Services.....	770	830	60
				4,800	5,474	674
National Research Council, including the Medical Research Council—						
1,434	1,394	(40)	Administration and Services.....	1,271	1,322	51
1,952	1,929	(23)	Scientific and Engineering Divisions.....	1,836	1,915	79
6	6	—	Medical Research Council.....	6	6	—
3,392	3,329	(63)		3,113	3,243	130
National Revenue—Customs and Excise—						
653	713	55	General Administration.....	600	656	56
267	312	45	Checking, Refunds and Drawbacks.....	262	285	23
869	1,185	316	Excise Duty and Excise Tax.....	821	1,113	292
150	149	(1)	Customs Inspection and Investigation.....	147	146	(1)
6,365	5,794	(571)	Ports.....	5,855	5,475	(380)
8,309	8,153	(156)		7,685	7,675	(10)
National Revenue—Taxation Division—						
591	622	31	Head Office.....	500	557	57
1,597	2,576	979	Data Centre (Ottawa).....	1,817	2,029	212
6,000	5,649	(351)	District Offices.....	5,478	5,390	(88)
22	22	—	Tax Appeal Board.....	20	21	1
8,210	8,869	659		7,815	7,997	182
Northern Affairs and National Resources—						
213	226	13	Departmental Administration.....	192	208	16
279	277	(2)	Water Resources Branch.....	235	256	21
National Parks Branch—						
56	85	29	Administration.....	46	74	28
2,489	2,476	(13)	Operation and Maintenance of National Parks and Historic Sites and Monuments.....	2,056	2,265	209
111	91	(20)	Canadian Wildlife Services.....	90	79	(11)
Northern Administration Branch—						
196	186	(10)	Administration.....	156	170	14
445	510	65	Education Division.....	450	476	26
165	162	(3)	Welfare and Industrial Division.....	132	132	—
586	663	77	Northwest Territories and Other Field Services..	493	613	120
62	62	—	Yukon Territory.....	45	59	14
4,602	4,738	136		3,895	4,332	437
Post Office—						
1,131	1,019	(112)	Headquarters.....	932	943	11
860	949	89	District Offices.....	856	926	70
581	558	(23)	Railway Mail Service.....	498	444	(54)
26,897	27,919	1,022	Staff Post Offices.....	26,707	27,683	976
29,469	30,445	976		28,993	29,996	1,003
Privy Council—						
126	137	11	Privy Council Office.....	117	116	(1)
7	7	—	Prime Minister's Residence.....	7	6	(1)
133	144	11		124	122	(2)
Public Archives and National Library—						
189	213	24	Public Archives.....	134	180	46
121	159	38	National Library.....	67	104	37
310	372	62		201	284	83

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
			DEPARTMENTS—Continued			
			Public Printing and Stationery—			
			Publications Branch—			
30	32	2	Departmental Administration.....	28	30	2
159	164	5	Distribution of official documents including print	139	154	15
189	196	7	procurement.....	167	184	17
			Public Works—			
1,876	1,917	41	General Administration.....	1,654	1,708	54
			Maintenance and Operation of Public Buildings and			
			Grounds—			
2,798	2,619	(179)	Ottawa.....	2,579	2,308	(271)
4,044	4,436	392	Other than Ottawa.....	3,616	3,998	382
935	744	(191)	Harbours and Rivers Engineering Services.....	803	686	(117)
177	940	763	Development Engineering Services.....	177	794	617
168	167	(1)	Testing Laboratories.....	147	152	5
9,998	10,823	825		8,976	9,646	670
<p>The increases in employees authorized and on strength at March 31, 1965 reflect the take-over from the Department of National Defence effective April 1, 1964 of the responsibility for buildings and maintenance at Fort Pepperell (185 positions) and Fort Churchill (478 positions) and for operation and maintenance of the Northwest Highway System (751 positions), a total of 1,414 positions of which 1,174 were filled at the year end.</p>						
			Royal Canadian Mounted Police (Civilian Staffs)—			
649	647	(2)	Headquarters.....	561	621	60
1,009	1,009	—	Land, Air and Training Divisions.....	963	957	(6)
13	12	(1)	Marine Services.....	13	10	(3)
1,671	1,668	(3)		1,537	1,588	51
			Secretary of State—			
63	75	12	Departmental Administration.....	60	76	16
33	36	3	Companies and Corporations Branch.....	25	35	10
360	399	39	Bureau for Translations.....	314	356	42
137	134	(3)	National Museum.....	104	117	13
52	53	1	Trade Marks Office.....	45	53	8
402	385	(17)	Patent and Copyright Office.....	332	367	35
8	14	6	Atlantic Development Board.....	8	13	5
99	100	1	Economic Council of Canada.....	61	84	23
18	18	—	Office of the Representation Commissioner.....	15	16	1
1,172	1,214	42		964	1,117	153
			Trade and Commerce—			
521	593	72	Departmental Administration.....	477	526	49
624	667	43	Trade Commissioner Service.....	623	656	33
446	484	38	Standards Branch.....	444	468	24
52	183	131	Exhibitions Branch.....	46	169	123
172	251	79	Canadian Government Travel Bureau.....	174	223	49
12	56	44	Canadian Government Participation 1967 Exhibition.	3	46	43
2,227	2,350	123	Dominion Bureau of Statistics.....	2,099	2,240	141
73	86	13	National Energy Board.....	64	74	10
4,127	4,670	543		3,930	4,402	472
			Transport—			
682	694	12	Departmental Administration.....	596	634	38
			Marine Services—			
2,428	2,108	(320)	Marine Administration and Marine Works.....	2,109	2,127	18
2,075	2,056	(19)	Marine Operations.....	1,869	1,879	10
498	478	(20)	Marine Regulations.....	387	406	19

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SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
			DEPARTMENTS—Concluded			
			Transport—Concluded			
			Air Services—			
490	479	(11)	Administration.....	420	438	18
1,679	1,715	36	Control of Civil Aviation and Air Traffic Control..	1,514	1,528	14
2,655	2,380	(275)	Airports and Property Management.....	2,170	2,336	166
719	575	(144)	Construction Branch.....	625	660	35
3,079	3,024	(55)	Telecommunications and Electronics Branch.....	2,792	2,876	84
2,397	2,407	10	Meteorological Branch.....	1,992	2,162	170
90	93	3	Air Transport Board.....	84	87	3
178	178	—	Board of Transport Commissioners.....	167	171	4
26	28	2	Canadian Maritime Commission.....	26	28	2
16,996	16,215	(781)		14,751	15,332	581
			Veterans Affairs—			
1,454	1,355	(99)	Administration.....	1,259	1,266	7
11,135	10,824	(311)	Treatment Services.....	10,528	10,397	(131)
808	789	(19)	Welfare Services.....	714	734	20
380	359	(21)	Pensions Administration.....	338	332	(6)
790	680	(110)	Veterans' Land Act Administration.....	657	637	(20)
14,567	14,007	(560)		13,496	13,366	(130)
216,075	217,507	1,432	Total, Departments.....	196,626	200,798	4,172
			CROWN CORPORATIONS (Notes 1 and 2)			
			Air Canada—			
			Operations Department—			
			Flying personnel.....	1,254	1,408	154
			Other personnel.....	6,180	6,360	180
			Sales Department.....	2,638	2,758	120
			Purchases and Stores Department.....	556	555	(1)
			Finance Department.....	474	492	18
11,423	11,909	486	All Other.....	321	336	15
				11,423	11,909	486
			Atomic Energy of Canada Limited—			
10	15	5	Head Office.....	10	15	5
2,356	2,420	64	Chalk River Nuclear Laboratories.....	2,227	2,258	31
361	397	36	Commercial Products Division.....	351	397	46
241	347	106	Whiteshell Nuclear Research Establishment.....	181	312	131
225	293	68	Power Projects.....	227	293	66
109	139	30	Temporary—Construction workers, nurses, etc.....	109	139	30
3,302	3,611	309		3,105	3,414	309
			Canadian Arsenals Limited—			
			Head Office.....	76	35	(41)
			Filling Division.....	388	296	(92)
			Explosives Division.....	274	216	(58)
			Dominion Arsenals Division.....	363	433	70
			Small Arms Division.....	221	205	(16)
1,482	1,185	(297)	Instruments and Electronics Division.....	160	—	(160)
				1,482	1,185	(297)
			Canadian Broadcasting Corporation—			
558	537	(21)	Head Office.....	500	491	(9)
305	316	11	National Engineering.....	277	274	(3)
7,104	7,319	215	Regional Offices.....	6,907	7,201	294
15	15	—	Foreign Offices.....	15	15	—
73	75	2	Northern and Armed Forces Services.....	81	84	3
164	176	12	International Services.....	159	173	14
8,219	8,438	219		7,939	8,238	299

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
			CROWN CORPORATIONS (Continued)			
			Canadian Corporation for the 1967 World Exhibition—			
			Administrative—			
11	15	4	Executive.....	11	15	4
24	47	23	Secretariat.....	23	36	13
69	133	64	Finance and Administration.....	68	114	46
167	247	80	Installations.....	125	191	66
75	57	(18)	Exhibitors.....	59	50	(9)
—	93	93	Public Relations.....	—	57	57
63	108	45	Operations.....	26	78	52
			Operating—			
—	5	5	Finance and Administration.....	—	—	—
—	15	15	Installations.....	—	3	3
—	11	11	Operations.....	—	2	2
409	731	322		312	546	234
87	2	(85)	Canadian Commercial Corporation.....	87	2	(85)
			Canadian National Railways—			
			General.....	10,996	11,321	325
			Road Maintenance.....	16,564	15,317	(1,247)
			Equipment Maintenance.....	17,843	18,766	923
			Transportation.....	32,812	34,992	2,180
			Other Operations.....	11,118	9,817	(1,301)
89,333	90,213	880		89,333	90,213	880
			Canadian Overseas Telecommunication Corporation—			
			Administrative.....	87	97	10
			Head Office Engineering.....	38	57	19
			Traffic Representatives.....	11	12	1
			Operating.....	398	426	28
534	592	58		534	592	58
			Canadian Patents and Development Limited—(Staff on loan from National Research Council).....	4	4	—
4	4	—		46	66	20
50	85	35	Centennial Commission.....			
			Central Mortgage and Housing Corporation—			
			Regular.....	1,992	1,968	(24)
			Contract and casual.....	84	68	(16)
2,076	2,036	(40)		2,076	2,036	(40)
97	106	9	Crown Assets Disposal Corporation.....	97	106	9
			Defence Construction (1951) Limited—			
			Administration.....	121	103	(18)
			Engineers.....	53	43	(15)
			Technical.....	67	51	(16)
246	197	(49)		246	197	(49)
33	33	—	Eldorado Aviation Limited.....	33	33	—
			Eldorado Mining and Refining Limited—			
			Head Office and General Administration.....	42	37	(5)
			Beaverlodge Division.....	520	528	8
			Refinery and Sales.....	142	157	15
			Research and Development.....	63	63	—
767	785	18		767	785	18
61	71	10	Export Credits Insurance Corporation.....	61	67	6
			Farm Credit Corporation—			
			Executive Officers.....	3	3	—
			Branch Managers, Assistant Branch Managers, Lend- ing Officers.....	48	48	—
51	54	3	Credit Supervisors, Credit Advisors.....	195	218	23
211	242	31	Solicitors, Notaries.....	9	11	2
12	11	(1)	Administrative, Accounting, Securities Officers.....	24	22	(2)
25	26	1	Office Staff.....	219	227	8
234	258	24		498	529	31
536	594	58				

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Concluded

Employees authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on strength		
March 1964	March 1965	Increase (Decrease)		March 1964	March 1965	Increase (Decrease)
22	20	(2)	CROWN CORPORATIONS (Concluded)			
			The National Battlefields Commission	22	20	(2)
28	36	8	National Capital Commission—			
42	46	4	Administrative and Accounting	26	32	6
59	63	4	Planning, Property Acquisition and Management	34	43	9
515	513	(2)	Landscape Architecture, Engineering, Construction and Maintenance	55	57	2
146	149	3	Prevailing rate—permanent and seasonal	277	289	12
790	807	17	Construction employees for special works	146	149	3
				588	570	32
			National Harbours Board—			
			Head Office	57	61	4
			Harbours and Elevators—			
			Salaried	836	818	(18)
2,255	2,246	(39)	Prevailing rate	1,392	1,367	(25)
				2,285	2,246	(39)
			Northern Canada Power Commission—			
209	245	36	Head and Edmonton Offices	39	42	3
37	38	1	Field Locations	170	203	33
				209	245	36
			Northern Transportation Company Limited	37	38	1
1,336	1,442	106	Polymer Corporation Limited and Subsidiary Com- panies—			
2,042	2,140	98	Salaried	1,298	1,367	69
3,378	3,582	204	Hourly rate	2,042	2,091	49
				3,340	3,458	118
			The St. Lawrence Seaway Authority—			
1,410	1,466	56	Administrative and Engineering	275	344	69
18	18	—	Operations	650	694	44
			Maintenance	485	428	(57)
				1,410	1,466	56
126,803	129,014	2,206	The Seaway International Bridge Corporation, Ltd...	18	18	—
			Total, Crown Corporations	125,902	127,983	2,081
1,080	1,072	(8)	OTHER INSTRUMENTALITIES—(Notes 1 and 2)			
34	32	(2)	Bank of Canada	1,080	1,072	(8)
614	580	(34)	The Canada Council	34	32	(2)
10	10	—	The Canadian Wheat Board	614	580	(34)
499	522	23	The Custodian	10	10	—
864	918	54	Industrial Development Bank	499	522	23
3,101	3,134	33	National Film Board	780	828	48
			Total, Other Instrumentalities	3,017	3,044	27
345,984	349,655	3,671	TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES	325,545	331,825	6,280

NOTES:

- (1) The figures appearing in these listings are based on the information provided by the various departments, Crown corporations and other instrumentalities. They include the numbers of seasonal, part-time and casual employees actually on strength at March 31, 1964 and March 31, 1965. For purposes of comparison these have been included in the figures shown for "Employees authorized".
- (2) Where no establishments have been authorized by the executive boards of certain Crown corporations or other instrumentalities, the totals of the actual strength figures have been shown in the "Employees authorized" columns for purposes of comparison.

**SUMMARY OF EXPENDITURE BY STANDARD OBJECTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1965**

(with comparative figures for the preceding fiscal year)
(in millions of dollars)

	1964-65	1963-64	Increase or decrease (—)
Civil salaries and wages.....	\$ 951.8	\$ 908.3	\$ 43.5
Civilian allowances.....	18.8	17.9	.9
Pay and allowances, defence forces and Royal Canadian Mounted Police.....	606.9	613.0	—6.1
Professional and special services.....	99.7	97.0	2.7
Travelling and removal expenses.....	67.1	63.1	4.0
Freight, express and cartage.....	10.0	10.9	— .9
Postage.....	7.1	5.9	1.2
Telephone, telegrams and other communication services.....	39.6	36.2	3.4
Publication of departmental reports and other material.....	11.2	9.7	1.5
Exhibits, advertising, films, broadcasting and displays.....	18.0	14.1	3.9
Office stationery, supplies, equipment and furnishings.....	27.6	27.0	.6
Materials and supplies.....	177.3	179.8	—2.5
Buildings and works, including land—			
Construction or acquisition.....	244.6	210.4	34.2
Repairs and upkeep.....	66.9	62.1	4.8
Rentals.....	19.9	17.2	2.7
Equipment—			
Construction or acquisition.....	283.4	300.3	—16.9
Repairs and upkeep.....	156.5	161.3	—4.8
Rentals.....	6.3	6.4	— .1
Municipal or public utility services.....	77.1	70.3	6.8
Contributions, grants, subsidies, etc., not included elsewhere.....	838.3	860.6	—22.3
Pensions, superannuation and other benefits.....	176.0	226.1	—50.1
All other expenditures (other than special categories).....	196.9	144.9	52.0
Interest on public debt, etc.....	1,051.3	993.7	57.6
Subsidies and special payments to the provinces.....	358.4	254.3	104.1
Family allowance payments.....	545.8	538.3	7.5
Youth allowance payments.....	26.8	—	26.8
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	181.5	171.8	9.7
Veterans' disability pensions, etc.....	180.3	173.2	7.1
Other payments to veterans and dependents.....	104.4	94.3	10.1
Government's contribution to the Unemployment Insurance Fund.....	62.2	59.3	2.9
Hospital insurance and general health grants.....	490.6	445.2	45.4
Trans-Canada Highway contributions.....	76.1	39.2	36.9
Movement of mail by land, air and water.....	68.7	65.5	3.2
Deficits—Government-owned enterprises.....	54.0	55.2	—1.2
	7,301.1	6,932.5	368.6
Less: Expenditure recovered.....	82.8	60.1	22.7
Net total expenditure.....	\$ 7,218.3	\$ 6,872.4	\$ 345.9

EXHIBITS

(as published in the Public Accounts)

Statement of Expenditure and Revenue for the fiscal year ended March 31, 1965 (with comparative figures for the preceding fiscal year).....	Exhibit 1
Statement of Assets and Liabilities as at March 31, 1965 (with comparative figures as at March 31, 1964).....	Exhibit 2
Summary of Appropriations, Expenditures and Unexpended Balances by Depart- ments for the fiscal year ended March 31, 1965.....	Exhibit 3
Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1965.....	Exhibit 4

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR
(with comparative figures for
EXPENDITURE

	Fiscal year ended	
	March 31, 1965	March 31, 1964
Agriculture.....	\$ 165,723,844	\$ 225,681,474
Atlantic Development Board.....	4,294,152	196,331
Atomic Energy.....	46,564,793	45,955,220
Auditor General's Office.....	1,589,889	1,258,359
Board of Broadcast Governors.....	367,645	341,849
Canadian Broadcasting Corporation.....	87,969,198	87,575,697
Central Mortgage and Housing Corporation.....	14,952,238	13,469,874
Office of the Chief Electoral Officer.....	578,175	11,875,892
Citizenship and Immigration.....	82,357,670	71,545,372
Civil Service Commission.....	6,226,358	5,224,776
Defence Production.....	24,146,395	22,559,354
Economic Council of Canada.....	833,873	164,824
Emergency Measures Organization.....	7,653,868	6,942,249
External Affairs.....	131,186,586	97,022,596
Finance—		
Public debt charges.....	1,051,290,596	993,729,375
Fiscal, tax-sharing, subsidy and other payments to provinces.....	358,357,022	254,330,006
Other expenditure.....	178,427,749	158,375,231
	<u>1,688,075,367</u>	<u>1,406,434,612</u>
Fisheries.....	25,593,261	23,716,314
Forestry.....	49,754,438	41,815,947
Governor General and Lieutenant-Governors.....	648,703	524,159
Industry.....	23,788,581	19,701,651
Insurance.....	1,445,861	1,435,005
Justice.....	53,529,441	40,995,992
Labour.....	283,724,837	280,383,807
Legislation.....	14,214,867	12,912,533
Mines and Technical Surveys.....	75,237,766	67,759,325
National Capital Commission.....	10,354,431	12,157,998
National Defence—		
Royal Canadian Navy.....	272,532,495	297,972,475
Canadian Army.....	433,551,506	454,465,501
Royal Canadian Air Force.....	656,033,636	700,847,349
Defence research and development.....	54,531,462	46,053,342
Other expenditure.....	118,985,598	184,132,336
	<u>1,635,634,697</u>	<u>1,683,471,003</u>
National Film Board.....	6,353,633	5,743,931
National Gallery.....	1,303,734	1,067,949
National Health and Welfare—		
Family allowances.....	545,775,231	538,312,223
Other expenditure.....	751,811,068	665,542,374
	<u>1,297,586,299</u>	<u>1,203,854,597</u>
National Research Council, including the Medical Research Council.....	56,641,725	47,259,773
National Revenue.....	86,908,544	82,995,521
Northern Affairs and National Resources.....	80,894,715	77,334,019
Post Office.....	210,458,702	206,894,516
Privy Council.....	4,568,571	2,940,181
Public Archives and National Library.....	1,507,268	1,112,723
Public Printing and Stationery.....	2,732,686	2,147,045
Public Works.....	224,510,352	154,842,706
Office of the Representation Commissioner.....	224,521	37,006
Royal Canadian Mounted Police.....	76,198,876	66,899,479
Secretary of State.....	21,909,881	7,568,044
Trade and Commerce.....	90,042,850	73,584,061
Transport.....	466,947,594	423,257,874
Veterans Affairs—		
Pensions.....	180,326,163	173,164,513
Other expenditure.....	172,711,504	160,575,368
	<u>353,037,667</u>	<u>333,739,881</u>
Total expenditure.....	<u>7,218,274,552</u>	<u>6,872,401,519</u>
Budgetary deficit.....	<u>-37,964,765</u>	<u>-619,197,480</u>
	<u>7,180,309,787</u>	<u>6,253,204,039</u>

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

EXHIBIT 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1965
the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1965	March 31, 1964
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$2,103,281,916	\$1,865,073,635
Corporation ⁽¹⁾	1,523,814,601	1,258,957,490
On dividends, interest, etc., going abroad.....	143,717,945	124,499,621
Excise taxes—		
Sales ⁽¹⁾	1,204,609,935	946,054,797
Other.....	269,082,084	273,415,444
Customs import duties.....	622,101,883	581,441,461
Excise duties.....	411,402,145	393,326,182
Estate tax ⁽²⁾	88,625,641	90,671,283
Miscellaneous.....	140,100	91,869
	6,366,776,250	5,533,531,782
Non-tax revenues—		
Return on investments.....	422,693,741	366,412,592
Post Office—net postal revenue.....	230,435,714	200,717,142
Refunds of previous years' expenditure.....	20,545,944	26,839,307
Services and service fees.....	60,924,531	51,321,056
Proceeds from sales.....	24,250,122	28,444,672
Privileges, licences and permits.....	30,824,939	27,172,568
Bullion and coinage.....	12,298,922	9,717,080
Premium, discount and exchange.....		232,234
Miscellaneous.....	11,559,624	8,815,606
	813,533,537	719,672,257

⁽¹⁾Excluding tax credited to the old age security fund—

	1964-65	1963-64
Personal income tax.....	431,900,000	302,600,000
Corporation income tax.....	145,250,000	115,750,000
Sales tax.....	383,151,254	331,760,067

⁽²⁾Includes duties levied under the Dominion Succession Duty Act.

Total revenue.....	7,180,309,787	6,253,204,039
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditures and revenues of Canada for the year ended March 31, 1965.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT

STATEMENT OF ASSETS AND
(with comparative figures)

ASSETS

	March 31, 1965	March 31, 1964	Net increase or decrease (—) during 1964-65
1. Current assets—			
(a) Cash, schedule A, page 9	\$ 850,282,135	\$ 984,642,872	\$ -134,360,737
(b) Departmental working capital advances and revolving funds, schedule B, page 9	134,150,957	168,806,488	-34,655,531
(c) Securities held for the securities investment account at amortized cost	57,119,872	99,859,788	-42,739,916
	29,134,994	33,484,613	-4,349,619
(d) Other current assets, schedule C, page 11	1,070,687,958	1,286,793,761	-216,105,803
2. Advances to the exchange fund account—(value of investments from advances on basis of official parity rate March 31, 1965, \$2,653,406,754; official parity rate March 31, 1964, \$2,631,200,188)	2,621,000,000	2,601,000,000	20,000,000
3. Investments in special United States of America securities—Columbia River Treaty	219,479,161		219,479,161
4. Sinking fund and other investments held for retirement of unmatured debt, schedule D, page 11	5,441,198		5,441,198
5. Loans to, and investments in, Crown corporations, schedule E, page 11	4,996,301,176	4,584,194,507	412,106,669
6. Loans to national governments, schedule F, page 13	1,206,576,551	1,195,684,799	10,891,752
7. Other loans and investments, schedule G, page 14—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations	709,753,537	702,130,003	7,623,534
	98,435,806	113,651,578	-15,215,772
(b) Loans to provincial governments			
(c) Veterans land act advances (less reserve for conditional benefits)	231,322,169	216,970,307	14,351,862
	99,869,916	165,064,212	-65,194,296
(d) Miscellaneous	1,139,381,428	1,197,816,100	-58,434,672
8. Securities held in trust, schedule H, page 17	53,059,934	38,881,823	14,178,111
9. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	53,761,600		53,761,600
Public service superannuation account	39,920,800	276,661,000	-236,740,200
Royal Canadian Mounted Police superannuation account	4,153,600		4,153,600
(b) Unamortized loan flotation costs, appendix No. 7, Section 9, page 15	110,749,442	123,699,586	-12,950,144
	208,585,442	400,360,586	-191,775,144
10. Suspense accounts, schedule I, page 18		141,392	-141,392
11. Capital assets	1	1	
12. Inactive loans and investments, schedule J, page 18	94,824,381	94,824,381	
Total recorded assets	11,615,337,230	11,399,697,350	215,639,880
13. Less: Reserve for losses on realization of assets	-546,384,065	-546,384,065	
Net recorded assets	11,068,953,165	10,853,313,285	215,639,880
14. Net debt, represented by excess of liabilities over net recorded assets, schedule K, page 18	15,504,472,544	15,070,149,452	434,323,092
	26,573,425,709	25,923,462,737	649,962,972

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(The schedules and the appendix referred to in the above Statement, and the pages referred to in the two notes, are to be found in the Public Accounts, Section 7 of Volume I)

EXHIBIT 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1965
as at March 31, 1964)

LIABILITIES

	March 31, 1965	March 31, 1964	Net increase or decrease (—) during 1964-65
15. Current and demand liabilities, schedule L, page 19—			
(a) Outstanding treasury cheques.....	\$ 315,077,233	\$ 319,625,031	\$ -4,547,798
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	363,925,315	342,673,020	21,252,295
(c) Non-interest-bearing notes payable to the international monetary fund and the international development associa- tion.....	367,897,531	586,996,025	-219,098,494
(d) Matured debt outstanding.....	19,140,916	26,820,208	-7,679,292
(e) Interest due and outstanding.....	102,034,032	91,893,490	10,140,542
(f) Interest accrued.....	231,173,522	215,973,372	15,200,150
(g) Other current liabilities.....	33,367,648	35,710,909	-2,343,261
	1,432,616,197	1,619,692,055	-187,075,858
16. Deposit and trust accounts, schedule M, page 21.....	272,311,590	196,454,123	75,857,467
17. Annuity, insurance and pension accounts, schedule N, page 25..	5,675,840,853	5,131,053,811	544,787,042
18. Undisbursed balances of appropriations to special accounts, schedule O, page 26.....	95,702,607	111,601,270	-15,898,663
19. Deferred credits, schedule P, page 26.....	113,208,312	119,446,821	-6,238,509
20. Suspense accounts, schedule Q, page 26.....	5,531,971	5,117,628	414,343
21. Unmatured debt, schedule R, page 28—			
(a) Bonds.....	16,838,214,179	16,510,097,029	328,117,150
(b) Treasury bills.....	2,140,000,000	2,230,000,000	-90,000,000
	18,978,214,179	18,740,097,029	238,117,150

NOTE:

The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, \$1,368,297,986; other guarantees of \$6,597,743,540; together with certain indeterminate guarantees, are listed on page 83.

Total liabilities.....	26,573,425,709	25,923,462,737	649,962,972
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1965.

A. M. HENDERSON,
Auditor General.

**SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES
BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1965**

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward ⁽¹⁾
		\$	\$	\$	\$
1	Agriculture.....	168,791,484	165,723,844	3,067,640	
2	Atlantic Development Board.....	4,356,509	4,294,152	62,357	
3	Atomic Energy.....	46,583,500	46,564,793	18,707	
4	Auditor General's Office.....	1,595,500	1,589,889	5,611	
5	Board of Broadcast Governors.....	390,300	367,045	22,655	
6	Canadian Broadcasting Corporation.....	88,000,000	87,969,198	30,802	
7	Central Mortgage and Housing Corporation.....	14,962,564	14,952,238	10,326	
8	Office of the Chief Electoral Officer.....	588,364	578,175	10,189	
9	Citizenship and Immigration.....	83,638,328	82,357,670	1,280,658	
10	Civil Service Commission.....	6,399,975	6,226,358	173,617	
11	Defence Production.....	25,685,190	24,146,395	1,438,795	
12	Economic Council of Canada.....	885,920	833,873	52,047	
13	Emergency Measures Organization.....	10,296,000	7,653,868	2,642,132	
14	External Affairs.....	135,743,952	131,186,586	4,557,366	
15	Finance.....	1,598,518,683	1,588,075,367	10,443,316	
16	Fisheries.....	27,678,605	25,593,261	2,085,344	
17	Forestry.....	53,541,348	49,754,438	3,786,910	
18	Governor General and Lieutenant-Governors.....	678,567	648,703	29,864	
19	Industry.....	24,654,100	23,788,581	865,519	
20	Insurance.....	1,462,446	1,445,861	16,585	
21	Justice.....	56,834,121	53,529,441	3,304,680	
22	Labour.....	(2) 371,958,225	283,724,837	46,160,819	42,072,569
23	Legislation.....	14,301,317	14,214,867	86,450	
24	Mines and Technical Surveys.....	78,027,496	75,237,766	2,789,730	
25	National Capital Commission.....	10,463,001	10,354,431	108,570	
26	National Defence.....	1,546,751,222	1,535,634,697	11,116,525	
27	National Film Board.....	6,353,700	6,353,633	67	
28	National Gallery of Canada.....	1,322,700	1,303,734	18,966	
29	National Health and Welfare.....	1,302,144,072	1,297,586,299	4,557,773	
30	National Research Council, including the Medical Research Council.....	58,360,901	56,641,725	1,719,176	
31	National Revenue.....	89,670,744	86,908,544	2,762,200	
32	Northern Affairs and National Resources.....	(3) 94,086,315	80,894,715	13,191,600	
33	Post Office.....	211,904,673	210,458,702	1,445,971	
34	Privy Council.....	4,875,885	4,568,571	307,314	
35	Public Archives and National Library.....	1,567,800	1,507,268	60,532	
36	Public Printing and Stationery.....	2,954,600	2,732,686	221,914	
37	Public Works.....	227,547,188	224,510,352	3,036,836	
38	Office of the Representation Commissioner.....	224,521	224,521		
39	Royal Canadian Mounted Police.....	77,316,764	76,198,876	1,117,888	
40	Secretary of State.....	22,333,154	21,909,881	423,273	
41	Trade and Commerce.....	91,688,507	90,042,850	1,645,657	
42	Transport.....	438,599,309	418,735,575	19,863,734	
	Canadian Maritime Commission.....	41,399,982	40,635,156	764,826	
	National Harbours Board.....	8,853,301	7,576,863	1,276,438	
43	Veterans Affairs.....	358,015,684	353,037,667	4,978,017	
		(4) 7,411,906,517	7,218,274,552	151,559,396	42,072,569

⁽¹⁾ Available for expenditure in 1965-66.

⁽²⁾ Includes \$54,913,000 carried forward from 1963-64 appropriations.

⁽³⁾ Includes \$225,000 carried forward from 1963-64 appropriations.

⁽⁴⁾ In addition, parts of appropriations in respect of the following departments and expenditures in similar amounts were transferred to "Other loans and investments", as follows: Agriculture \$4,332,269 and National Health and Welfare \$2,250.

H. R. BALLS,

Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1965.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

AUDITOR GENERAL'S REPORT

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Section (Volume II)	Department	Tax revenues	Return on investments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscel- laneous	Total
1	Agriculture.....	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
3	Atomic Energy.....		349,801			1,619,656	1,388,211	7,090,450	258,698	58,916	10,765,732
4	Auditor General's Office.....		348,430						187		348,617
5	Board of Broadcast Governors.....							12,098	666		12,764
6	Canadian Broadcasting Corporation.....								75	770	845
7	Central Mortgage and Housing Corporation.....		93,349,200			3,135	3,135				3,135
8	Office of the Chief Electoral Officer.....					5,007,046	5,007,046		452,847	1,440,342	100,249,435
9	Citizenship and Immigration.....		37,704			973,095	96,999	98,396	10	2,300	2,310
10	Civil Service Commission.....							14		364,207	1,792,981
11	Defence Production.....		5,593,577				9,865,343	143,450	14,032	27,035	15,643,467
12	Economic Council of Canada.....										74
13	Emergency Measures Organization.....										
14	External Affairs.....					15,423	1,200	683	136		136
15	Finance.....		1,393,626			1,124,198	40,497	12,117	79,961	84,539	181,776
16	Fisheries.....		262,586,245						145,019	13,448	2,728,905
17	Forestry.....		640,351	12,298,922		128,064	41	29,431,334	430,396	674,288	27,931,226
18	Industry.....					116,453	54,901	28,605	11,141	41,892	977,441
19	Insurance.....	138,249						4,260	95,111	1,301	272,026
20	Justice.....		393,873			2,300,936	307,083	829,919	102,353		102,353
21	Labour.....		2,142					278,409	90,470	370	908,558
22	Legislation.....						3,604	1,817	1,336,462	316,534	3,687,305
23	Mines and Technical Surveys.....					165,090		4,132	1,267	833,888	2,177,913
24	National Defence.....		188,393			27,175	547,873	7,442	24,701	4,362	174,851
26	National Film Board.....		1,092,391			1,632,864	2,549,913	2,239,917	11,879,908	21,824	817,408
27	National Gallery of Canada.....								91,799	3,368,595	22,763,588
28	National Health and Welfare.....										91,799
29	National Research Council including Medical Research Council.....		82			346,792	167,769	5,037,912	2,577	20,567	23,244
30	National Revenue.....		376						934,841	56,501	6,543,897
31	Northern Affairs and National Resources.....	6,366,638,150	1,545						77,643	377	78,396
32	Post Office.....	1,851	504,820			207,672	110,559	566,000	5,954	1,744,682	6,309,272,562
33	Privy Council.....		2,770		230,435,714	4,400,173	676,186	574,700	552,040	155,819	6,925,589
34	Public Archives and National Library.....						17,214		6,354	26,042	230,488,694
35	Public Printing and Stationery.....		8,731						5,017	5,001	10,018
36	Public Works.....					77,212	1,853,174	9,334	4,676	178	22,919
37	Royal Canadian Mounted Police.....					2,524,840	116,468	12,257	19,017	1,961,660	1,961,660
39	Secretary of State.....		15,342			767,035	453,611	837,946	650,677	464,076	4,614,007
40	Trade and Commerce.....					494,913	2,484	15,937,270	173,732	145,157	17,492,147
41	Transport.....		4,549,451			23,685	1,108	172,387	384	279	670,447
42	Veterans Affairs.....		43,290,115			13,777,077	820,893	2,359,172	25,179	1,398,883	8,351,478
43			8,344,776			41,986	38,022	21,710,480	733,822	141,352	80,473,739
		6,366,776,250	422,693,741	12,298,922	230,435,714	30,824,439	24,250,122	80,924,531	20,545,944	11,559,624	7,180,309,787

H. R. BALIS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1965.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)



CANADA

**REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS**

**for the
FISCAL YEAR ENDED MARCH 31
1966**





CANADA

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF COMMONS

for the
FISCAL YEAR ENDED MARCH 31
1966

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(as published in the Public Accounts)

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THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, R.S., c. 116.

2. In accordance with the requirement of section 70 of the Act, a Report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1966. Subsection (1) of the section reads:

The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,

(b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,

(d) an expenditure was not authorized or was not properly vouched or certified,

(e) there has been a deficiency or loss through the fraud, default or mistake of any person, or

(f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1966 and the Statement of Assets and Liabilities as at that date, prepared by the Department of Finance for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main Classifications and Departments, both as included in the 1966 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Standing Committee on Public Accounts

4. The Committee met only once during 1965 and this was on March 10 when it approved its Ninth Report 1964-65 which was submitted to the House on March 15, 1965.

It did not consider my 1964 Report to the House during that year because no motion was introduced in the House to refer the Report to the Committee. It will be recalled that Parliament was dissolved on September 8, 1965 and that a general election was held on November 8, 1965.

The Twenty-seventh Parliament opened on January 18, 1966 and my 1965 Report to the House was tabled in the House on February 1, 1966. Although the Public Accounts

AUDITOR GENERAL'S REPORT

Committee was organized and the names of its 24 members announced on February 7, 1966, the motion to refer my 1964 and 1965 Reports to this Committee was not introduced in the House until March 28, 1966. The Committee commenced its examination of these Reports on April 5, 1966 and is still in session.

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with by Executive action

5. In my Report to the House last year I stated that 40 Committee recommendations had not been implemented or dealt with by Executive action.

In the course of its meetings during the period April 5, 1966 to July 5, 1966, the Committee was advised that 11 of these 40 recommendations had since been implemented. Following the summer recess the Committee resumed its sittings on October 25 and between this date and November 3, 1966 presented six reports to the House containing its recommendations on the matters examined up to July 5, 1966.

These reports not only contained new recommendations but also reiterated previous ones on which no action had been taken. Several of these date back to 1961.

Particulars of the Committee recommendations awaiting Executive action at this time are shown in Appendix 1. They now total 49 compared with the 40 shown last year.

Scope of the Audit

6. Examinations of the departmental accounts for the year ended March 31, 1966 were made in conformity with section 67 of the Financial Administration Act which reads:

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion

- (a) the accounts have been faithfully and properly kept,
- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Our examinations continued to include a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The attention of responsible administrative and accounting officers was directed to transactions which, in the Audit Office view, were not in harmony with annual parliamentary appropriations or continuing statutory financial directions, or which lacked conformity with Executive orders or regulations.

Our examinations extended to all departments, Crown corporations and other agencies of the Government of Canada, excepting those corporations and other instrumentalities listed in paragraph 188 whose accounts were subject to examination by other auditors.

During the course of their work, members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of Crown corporations and other agencies.

The Audit Office has continued to follow its practice of addressing detailed reports to the executive boards of Crown corporations and other agencies covering the results of its examinations. These reports give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the audit. Matters dealt with in these reports that are considered to be of interest to the House of Commons are referred to in the relevant sections of this Report.

Findings of the Royal Commission on Government Organization

7. In my Report to the House last year I referred to the request of the Public Accounts Committee in 1964 that I follow through and ascertain what action had been taken with regard to the findings of this Royal Commission (1960 to 1963) relating to outdated procedures, uneconomical operations and wasteful practices. I advised the House that, following a study by the Audit Office last year in 32 departments and agencies where conditions giving rise to the 450 findings were known to exist, it was found that action had been taken in only about one-quarter of the cases. The results of this study have not yet been reviewed by the Public Accounts Committee in its examination of my 1965 Report.

The principal change during the past year was an announcement by the President of the Treasury Board on April 7, 1966 that 25 more recommendations made by the Royal Commission had been approved. This leaves 151 recommendations not yet disposed of out of the original 276.

In my opinion a detailed examination of each of the findings is long overdue. The 24 reports of the Royal Commission specifically stated the conditions that were found to exist and our study last year confirmed their continued existence in 73% of the cases. I believe that prompt action by those responsible could yield substantial savings in public funds in future years.

Meanwhile, administrative overhead in departments and agencies continues to rise substantially in terms of staff needs and office costs. I advised the House last year that when this Royal Commission concluded its work in 1962-63, administrative overhead in terms of staff needs and office costs was to the order of \$1,000 million. The comparable figure presently estimated for 1966-67 is \$1,325 million, an increase of over 30% during the past four years. Some explanation of this can be found in the Summary of Employees

AUDITOR GENERAL'S REPORT

(Appendix 2) which shows that the number of employees authorized for departments, Crown corporations and other instrumentalities at March 31, 1966 had increased by 10,965 over the past year. This brings to 20,512 the increase in the number of employees authorized since the Royal Commission published its findings.

Office of the Auditor General

8. The staff establishment authorized for the Audit Office was 221 employees during the year. The working strength at November 30, 1966 totalled 203 employees.

During its current meetings the Public Accounts Committee has reviewed the function and operations of the Office of the Auditor General at length. It will be recalled that the Committee had made three recommendations in its 1963 and 1964 reports to the House designed to ensure the independence of the Office and to improve parliamentary control of public funds.

In expressing its regret that no action had been taken with respect to these recommendations, the Committee reported to the House on June 28, 1966 as follows:

- (1) It continues to be the opinion of the Committee that it is fundamental that the Office of the Auditor General of Canada be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee has been particularly pleased to note in this connection that the Office was recently accorded the right by the Institutes of Chartered Accountants of Quebec (1964) and Ontario (1966) to article students-in-accounts. The Committee believes that as an officer of Parliament, the Auditor General should have the right to recruit the professional and senior staff he needs, in the same independent manner as do other officers of Parliament and that the Auditor General's establishment be set in the same manner as government departments.
- (2) The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee again recommends:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.
- (3) The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

For the purpose of preserving the independence of the Office of the Auditor General, the Committee again recommends that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

- (4) The Committee has noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal has been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65 (2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommends that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

- (5) The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General, including the foregoing recommendations, should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee is requesting the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government.

The first four of the above recommendations of the Public Accounts Committee will be recognized as recommendations for action by the House of Commons.

The fifth recommendation includes a request that the Auditor General consult with his legal advisers and co-operate with them in drafting a separate Act of Parliament governing the Office of the Auditor General, for submission to the Committee and to the Government in due course. I have complied with this request and I am submitting this draft legislation to the Chairman of the Public Accounts Committee and to the Minister of Finance concurrently with my delivery of this Report to the Minister of Finance for tabling in accordance with section 70(2) of the Financial Administration Act.

Summary of Expenditure and Revenue

9. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1966, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows a deficit of \$39 million for the year. By comparison, there were deficits of \$38 million in the preceding year and \$619 million in 1963-64.

Expenditure

10. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1966, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,998 million, expenditures of \$7,735 million and unexpended balances of \$263 million.

11. Of the \$7,998 million of appropriations available for expenditure in the year, \$3,180 million was provided by continuing statutory authorities and \$4,776 million was granted by Appropriation Acts (Nos. 1, 3, 4, 5 and 6 of 1965 and Nos. 1, 2 and 4 of 1966) while \$42 million remained available from continuing 1964-65 appropriations (Department of Labour Votes 5, 6 and 8).

Of the \$7,735 million of expenditure during the year, \$3,180 million (41%) was incurred under the continuing statutory authorities, with \$4,555 million (59%) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the \$263 million of unexpended balances at the year-end, \$174 million lapsed in compliance with section 35 of the Financial Administration Act and \$89 million pertaining to the following departments and votes remained available for expenditure in 1966-67 because of the special wording of the appropriations:

<u>Department</u>	<u>Vote</u>	<u>Particulars</u>	<u>Amount</u>
Citizenship and Immigration (transferred from Department of Labour)	6	Winter works incentive program	\$ 39,170,000
Finance	50	Forgiveness of indebtedness under terms of Municipal Development and Loan Act, 1963, c.13	22,000,000
Finance	15	To supplement estimates of other departments in connection with the winter construction and repair program	4,339,000
Labour	8	Winter house building incentive program ...	15,388,000
Mines and Technical Surveys	62	Subsidy to San Antonio Gold Mines Limited .	7,000
Transport	112	Trunk highway program of the Atlantic Development Board	7,905,000
			<u>\$ 88,809,000</u>

SUMMARY OF EXPENDITURE AND REVENUE

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12. The lapsed balances of \$174 million represented 3.6% of the \$4,818 million of appropriations under Appropriation Acts. This compares with lapsed balances of 3.5% of the amounts available in the preceding year and 4.1% in 1963-64. In the following cases the lapsed balances represented more than 10% of the appropriations under the Appropriation Acts:

	Appropriations	Lapsed	
		Amount	%
Board of Broadcast Governors	\$ 493,000	\$ 110,000	22
Canada Emergency Measures Organization	9,744,000	2,000,000	21
Industry	36,025,000	6,723,000	19
Secretary of State	27,840,000	3,843,000	14
Labour	45,029,000	5,647,000	13
Trade and Commerce	52,509,000	6,435,000	12
Public Printing and Stationery	3,409,000	356,000	10

13. The following summary compares expenditure for the fiscal year 1965-66 with the corresponding figures for the two previous years:

	1965-66	1964-65	1963-64
Agriculture	\$ 186,264,000	\$ 165,724,000	\$ 225,681,000
Atomic Energy	54,450,000	46,565,000	45,955,000
Canadian Broadcasting Corporation	97,459,000	87,969,000	87,576,000
Citizenship and Immigration	238,567,000	180,997,000	200,752,000
External Affairs	152,546,000	131,187,000	97,023,000
Finance	1,850,679,000	1,622,642,000	1,446,888,000
Fisheries	34,526,000	25,593,000	23,716,000
Forestry	57,135,000	49,754,000	41,816,000
Industry	29,301,000	23,789,000	19,702,000
Mines and Technical Surveys	107,358,000	94,324,000	87,166,000
National Defence	1,548,447,000	1,537,835,000	1,685,981,000
National Health and Welfare	1,175,122,000	1,300,598,000	1,206,354,000
National Research Council, including Medical Research Council	74,387,000	56,642,000	47,260,000
National Revenue	94,972,000	86,909,000	82,996,000
Northern Affairs and National Resources ..	156,434,000	127,306,000	113,163,000
Post Office	240,206,000	210,459,000	206,895,000
Public Works	256,526,000	224,058,000	154,307,000
Royal Canadian Mounted Police	81,959,000	76,199,000	66,899,000
Solicitor General	56,875,000	39,278,000	27,947,000
Trade and Commerce	46,074,000	54,797,000	32,533,000
Transport	508,744,000	466,519,000	422,867,000
Unemployment Insurance Commission	98,038,000	94,792,000	88,414,000
Veterans Affairs	369,652,000	352,098,000	332,800,000
Other departments	219,074,000	162,241,000	127,710,000
	<u>\$ 7,734,795,000</u>	<u>\$ 7,218,275,000</u>	<u>\$ 6,872,401,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the variation between the totals listed above for 1965-66 and 1964-65.

14. Agriculture. Expenditure by this Department increased by \$21 million (12%) due principally to an increase of \$11 million (15%) in grants, contributions and subsidies by the Production and Marketing Branch, and increased expenditure by: Research Branch, \$3.8 million (13%); Land Rehabilitation, Irrigation and Water Storage Projects, \$2 million (7.5%); Health of Animals Branch, \$1.5 million (11%); and the Board of Grain Commissioners, \$.6 million (9%).

15. Atomic Energy. The net increase of \$7.9 million (17%) under this heading comprises increases of \$4.8 million (14%) for the operating expenditure and \$2.7 million (26%) for the capital research program of Atomic Energy of Canada Limited, and \$377,000 for the operations of the Atomic Energy Control Board.

16. Canadian Broadcasting Corporation. The increase of \$9.5 million (11%) was due mainly to an increase of \$7.1 million in the cost of production and distribution of programs, \$635,000 in interest on funds advanced to the Corporation to meet its capital requirements, and provision, for the first time, of funds to meet loan repayment instalments, \$712,000. Loans, less repayments, of \$12 million were made to the Corporation to meet its capital requirements compared with \$14 million in the previous year.

17. Citizenship and Immigration. Expenditure increased by \$58 million (32%). This was due mainly to increases of \$56 million (57%) in payments to provinces to provide assistance for technical and vocational schools and training programs, \$2.1 million (17%) in the operations of the Immigration Branch, mainly in providing additional field and inspection services at home and abroad, \$1 million (4.8%) in administration of the National Employment Service and \$.7 million (24%) in departmental administration, offset by reductions of \$1.7 million (4%) in payments under the municipal winter works incentive program and \$.9 million in payments under the older worker employment and training incentive program which was discontinued in 1964-65.

18. External Affairs. The increase of \$21 million (16%) is accounted for largely by a special voluntary contribution of \$4.3 million to the United Nations, which had no counterpart in 1964-65, and increases in: contributions to international economic and special aid programs, \$6.9 million (71%); external aid, \$4.6 million (5.7%); and costs of headquarters administration and representation abroad, \$4.9 million (17%).

19. Finance. There was an increase of \$228 million (14%) due mainly to: an increase of \$108 million (30%) in subsidies and other payments to provinces, including payments of \$81 million under the Established Programs (Interim Arrangements) Act, 1964-65, c. 54, which had no counterpart in the previous year; an increase of \$60 million (5.7%) in public debt charges; an increase of \$31 million, from \$3 million to \$34 million, in the forgiveness of indebtedness under the Municipal Development and Loan Act, 1963, c. 13; and an increase of \$16 million (160%) in the amortization of deferred charges pertaining to special contributions to the Public Service Superannuation Account.

20. Fisheries. The increase of \$8.9 million (35%) was due mainly to increased costs of \$2.3 million (17%) for operation and maintenance, \$2.4 million (176%) for construction or acquisition of works and equipment and \$2.4 million (155%) for grants and subsidies.

21. Forestry. Expenditure increased by \$7.4 million (15%) due in large part to a \$3.9 million (42%) increase in payments in respect of projects and programs under the Agricultural Rehabilitation and Development Act, 1960-61, c. 30, a \$1.9 million (10%) increase in freight and storage assistance payments on western feed grains and a \$1.5 million (15%) increase in administration, operation and maintenance costs.

22. Industry. Expenditure increased by \$5.5 million (23%) due to an increase of \$1.7 million (51%) in administration costs and an increase of \$3.8 million (19%) in costs of sustaining technological capability in Canadian industry.

23. Mines and Technical Surveys. Expenditure increased by \$13 million (14%). Major increases were: \$2.5 million (28%) for marine surveys and research; \$1.9 million (155%) for subventions under the Atlantic Provinces Power Development Act, 1957-58, c. 25; \$1.3 million (21%) in contributions to the provinces for the development of roads leading to resources and of campgrounds and picnic areas; \$1.1 million (15%) for field and air survey operations; and \$1 million (18%) for mining and metallurgical investigations. Expenditure on the construction of the Dominion Astrophysical Observatory at Victoria, B.C., was \$1.8 million compared with only \$77,000 in the preceding year.

24. National Defence. Although the expenditure of \$1,548 million represented an increase of less than 1% over the preceding year, significant changes occurred in several individual expenditure classifications. There was an increase of \$18 million (4%) in Defence Services—Army, and a decrease of \$20 million (3%) in Defence Services—Air Force. Development expenditure increased \$13 million (74%) and defence research in Canadian industry increased \$1.5 million (39%). Mutual Aid decreased \$13 million (47%). Not included in the expenditure for Defence Services—Army were outlays of \$1 million charged to the National Defence Replacement of Materiel Account during the year.

25. National Health and Welfare. Expenditure decreased by \$125 million (10%) which comprised reductions of \$114 million (26%) in payments pursuant to the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, \$28 million (38%) in payments under the various programs of categorical allowances, \$7.3 million (21%) in general health grants, \$5.8 million (5.4%) in payments under the Unemployment Assistance Act, 1956, c. 26, and \$3.9 million (18%) in hospital construction grants, offset in part by increases of \$20 million (73%) in youth allowances, which were in effect for a full year compared with seven months in the prior year, \$6 million (1.1%) in family allowances and \$5 million (15%) for medical services, most of which related to construction costs of the Charles Camshell Hospital. The substantial decrease in departmental expenditure resulted from the Province of Quebec opting out of shared-cost programs from January 1,

1965, consequent on the Province obtaining certain tax concessions under the Established Programs (Interim Arrangements) Act, 1964-65, c. 54. Payments to the Province of Quebec for January, February and March 1965 amounting to \$32 million were recoverable from payments to that Province by the Department of Finance under the Established Programs (Interim Arrangements) Act. This amount was recorded as a refund of expenditure under the Hospital Insurance and Diagnostic Services Act in 1965-66, thus reducing the year's recorded expenditure by \$32 million.

26. National Research Council, including Medical Research Council. The \$18 million (31%) increase in expenditure was due largely to an increase of \$11 million (45%) in scholarships, grants in aid of research and assistance towards research in industry, and an increase of \$6.3 million (20%) in general administration costs.

27. National Revenue. Of the \$8.1 million (9.3%) increase in expenditure, \$3.5 million (7.8%) was in the Customs and Excise Division and \$4.6 million (11%) in the Taxation Division. The increases were due to higher administration costs.

28. Northern Affairs and National Resources. Expenditure of this Department increased by \$29 million (23%) with \$17 million of this due to increased activities of the Indian Affairs Branch where expenditure on social programs, including implementation of an accelerated five-year plan to provide housing on Indian reserves, increased by \$8.1 million (49%), education costs by \$6 million (17%), and economic development expenditure by \$1.1 million (38%). Northern Administration Branch expenditure increased by \$8.3 million (23%) of which \$2.1 million (9%) pertained to operation and maintenance costs and \$5.2 million (63%) to expenditure on construction of buildings, works, roads and bridges. In the National Parks Branch there was an increase of \$3.8 million (15%), of which \$2.3 million was in the costs of operation and maintenance and \$1.5 million (11%) in expenditure on construction.

29. Post Office. The expenditure of this Department increased by \$30 million (14%) due largely to increased salary costs of \$25 million (19%) and increased cost of transporting mail by land and air of \$3.5 million (5.1%).

30. Public Works. There was an increase of \$32 million (14%) in expenditure by this Department. The largest item was an increase of \$14 million (16%) for accommodation services, including an increase of \$4.5 million in rental costs. Expenditure in connection with Trans-Canada Highway construction increased by \$7 million (10%) and harbours and rivers expenditure increased by \$5 million (17%). General administration expenses increased by \$3.8 million (31%) and those in respect of the ice control structure in the Montreal harbour area by \$1.7 million (29%).

31. Royal Canadian Mounted Police. Expenditure increased by \$5.8 million (7.6%). Of this amount \$3.8 million was due to increases in pay and pension benefits and the balance to the general increases in operating costs.

32. Solicitor General. Of the increase of \$18 million (45%) in expenditure, \$15 million (107%) represented increases for construction and improvements of penitentiaries and \$3 million (12%) for their administration, operation and maintenance.

33. Trade and Commerce. The decrease of \$8.7 million (16%) resulted from there being no counterpart in 1965-66 for the payment of \$19 million made in 1964-65 to the Canadian Corporation for the 1967 World Exhibition. Retroactive salary adjustments, together with increases in the number of personnel, largely accounted for greater expenditure by the Dominion Bureau of Statistics, \$1.5 million (12%), and the Canadian Government Travel Bureau, \$1.4 million (29%). The Canadian Government Participation in the 1967 World Exhibition expenditures were \$4.6 million compared with \$840,000 in 1964-65. Expenditures on the 1966 quinquennial census were \$921,000 compared with \$20,000 in 1964-65.

34. Transport. The expenditure of \$509 million represented an increase of \$42 million (9%) over the preceding year. This was accounted for largely by increased expenditure of: \$20 million—to \$85 million—for marine services, mainly for the construction of Canadian Coast Guard ships and facilities and for the administration, operation and maintenance thereof; \$19 million—to \$88 million—in interim payments to railways to maintain freight rates at reduced levels; and \$14 million—to \$24 million—for the construction of coastal ferries, docks and terminals. Other significant increases were: \$11 million—to \$143 million—in air services, mainly in respect of administration, operation and maintenance of the various facilities; \$9 million—to \$41 million—in capital subsidies for the construction of commercial and fishing vessels; and \$9 million to the Railway Grade Crossing Fund. Offsetting these increases were reductions of: \$19 million—from \$27 million—for The St. Lawrence Seaway Authority in reimbursement of the Welland Canal deficit; \$14 million—from \$24 million—in railway construction subsidies; and \$5 million—from \$38 million—in the deficit of the Canadian National Railways. Also, there was no counterpart in 1965-66 for the expenditure incurred by the Department in the preceding year in refunding \$2 million of air route facility fees.

35. Unemployment Insurance Commission. The expenditure of \$98 million represented an increase of \$3.2 million (3.4%). This was more than accounted for by an increase of \$3.5 million (5.7%) in the Government's statutory contribution to the Unemployment Insurance Fund.

36. Veterans Affairs. The expenditure of \$370 million was \$18 million (5%) higher than in the preceding year. The significant increases were \$8.8 million (9%) in war veterans allowances and assistance, \$5.2 million (2.9%) in pensions for disability and death and \$3.6 million (8%) in operation and maintenance of treatment services. The higher rates put into effect on September 1, 1964, paid for the full year, were the main factor contributing to the increases in allowances and pensions. Higher salaries and wages accounted largely for the increase in the cost of treatment services.

37. Other departments. Expenditure by "Other departments" totalled \$219 million, an increase of \$57 million (35%). An increase of \$19 million (453%) in expenditure of the Atlantic Development Board included increased disbursements of \$17 million (473%) from the Atlantic Development Fund and disbursements of \$2 million under the new trunk highway program. Allotments to Central Mortgage and Housing Corporation increased by \$6.6 million (44%), and of this figure \$3.5 million (50%) was in connection with the forgiveness of loans pursuant to section 36c of the National Housing Act, 1954, 1953-54, c.23, and \$2.1 million (44%) pertained to urban renewal projects. There was an increase of \$12 million in expenditure of the Office of the Chief Electoral Officer due entirely to the costs of the general election in November 1965. Expenditure by the Department of the Secretary of State increased by \$2.1 million (9.5%) to \$24 million, due to increased budgetary expenditure of \$11 million (153%) on behalf of the Centennial Commission of which \$5 million (125%) was an increase in the payment to the Centennial of Confederation Fund. There was no counterpart in 1965-66 for the grant of \$10 million to the Canada Council in the previous year.

38. Royal Commissions and Commissions under Part I of the Inquiries Act. Expenditure during 1965-66 and the cumulative expenditure of the existing Commissions from the respective dates of establishment to March 31, 1966 are shown below:

	<u>Date of establishment</u>	<u>Expenditure during year ended March 31, 1966</u>	<u>Cumulative expenditure to March 31, 1966</u>
Royal Commission on:			
Health Services	June 20, 1961	\$ 143,689	\$ 1,370,346
Banking and Finance	Oct. 18, 1961	14,572	748,848
Taxation	Sept. 25, 1962	568,760	2,654,852
Pilotage	Nov. 1, 1962	147,874	602,549
Bilingualism and Biculturalism	July 19, 1963	2,298,765	4,316,400
Commissions under Part I of the Inquiries Act to inquire and report on:			
(1) The problems relating to the future of the aircraft overhaul base maintained by Air Canada at Winnipeg Interna- tional Airport	June 11, 1964	13,084	28,084
(2) Circumstances surrounding the crash of an Air Canada aircraft at Ste. Therese, Quebec, on November 29, 1963	Oct. 8, 1964	14,968	21,037
(3) The export marketing problems of the Salt Fish Industry in the Atlantic Provinces	Oct. 29, 1964	12,786	42,117
(4) Allegations of improper conduct on the part of public officials in connection with extradition proceedings concern- ing Lucien Rivard	Nov. 25, 1964	51,646	180,054
(5) The charges of irregularities in the Federal Election of 1963	Mar. 2, 1965	14,107	14,107
(6) The marketing problems of the Fresh- water Fish Industry in the Provinces of Ontario, Manitoba, Saskatchewan and Alberta and Northwest Territories.	July 9, 1965	27,686	27,686

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(7) The increases in rates of pay for civil servants in Group "D" announced by the Government on July 16, 1965	July 23, 1965	7,193	7,193
(8) The Post Office Department concerning grievances relating to work rules, codes of discipline and other conditions of employment applying to non-supervisory operating employees, exclusive of salaries	Sept. 1, 1965	49,661	49,661
(9) The dealings of the Honourable Mr. Justice Leo A. Landreville with Northern Ontario Natural Gas Company Limited	Jan. 19, 1966	21,826	21,826
Preparatory committee on collective bargaining in the Public Service	July 25, 1963	42,549	157,883
		<u>\$ 3,429,166</u>	<u>\$ 10,242,643</u>

Revenue

39. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1966, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$6,850 million of the total revenue of \$7,696 million.

40. The following table summarizes the revenue, by principal sources, for the past three years:

	1965-66	1964-65	1963-64
Tax revenues—			
Personal income tax	\$ 2,142,456,000	\$ 2,103,282,000	\$ 1,865,074,000
Corporation income tax	1,606,620,000	1,523,815,000	1,258,957,000
Income tax on dividends, interest, etc., going abroad	170,019,000	143,718,000	124,500,000
Sales tax	1,395,129,000	1,204,610,000	946,055,000
Excise taxes (other than sales tax)	296,178,000	269,032,000	273,415,000
Customs duties	685,519,000	622,102,000	581,442,000
Excise duties	445,886,000	411,402,000	393,326,000
Estate tax	108,352,000	88,625,000	90,671,000
Other tax revenues	161,000	140,000	92,000
	<u>6,850,320,000</u>	<u>6,366,776,000</u>	<u>5,533,532,000</u>
Non-tax revenues—			
Return on investments	438,254,000	422,694,000	366,413,000
Net postal revenue	237,482,000	230,436,000	200,717,000
Other non-tax revenues	169,764,000	160,404,000	152,542,000
	<u>845,500,000</u>	<u>813,534,000</u>	<u>719,672,000</u>
	<u>\$ 7,695,820,000</u>	<u>\$ 7,180,310,000</u>	<u>\$ 6,253,204,000</u>

41. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, R.S., c.200. These collections, which amounted to \$1,169 million in the year, were credited to the Old Age Security Fund. A summary of the transactions relating to this Fund during the year, in comparison with the corresponding amounts for the two previous years, is given in paragraph 164.

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42. *Excise taxes.* The following is a summary of excise taxes, other than sales tax, collected during the year ended March 31, 1966, with comparable amounts for the two previous years:

	1965-66	1964-65	1963-64
Cigarettes	\$ 217,876,000	\$ 197,495,000	\$ 200,211,000
Manufactured tobacco	16,393,000	17,149,000	23,460,000
Phonographs, radios and tubes	14,729,000	13,082,000	11,432,000
Toilet articles and preparations	14,114,000	12,791,000	11,126,000
Television sets and tubes	12,232,000	10,440,000	10,578,000
Jewellery, clocks, watches, chinaware, etc.	7,935,000	6,864,000	6,353,000
Wines	4,402,000	4,092,000	3,814,000
Cigars	3,811,000	3,700,000	3,267,000
Sundry	5,034,000	3,816,000	3,505,000
Refunds and drawbacks	—348,000	—347,000	—331,000
	<u>\$ 296,178,000</u>	<u>\$ 269,082,000</u>	<u>\$ 273,415,000</u>

43. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1966, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1965-66	1964-65	1963-64
Cigarettes	\$ 179,054,000	\$ 168,797,000	\$ 157,054,000
Spirits	156,942,000	134,716,000	129,406,000
Beer	107,917,000	105,386,000	102,907,000
Other	8,047,000	8,403,000	8,623,000
Refunds and drawbacks	—6,074,000	—5,900,000	—4,664,000
	<u>\$ 445,886,000</u>	<u>\$ 411,402,000</u>	<u>\$ 393,326,000</u>

44. *Return on investments.* The following is a listing of the revenue from the various investments in 1965-66, along with the comparable figures for the two previous years:

	1965-66	1964-65	1963-64
Bank of Canada	\$ 143,106,000	\$ 128,238,000	\$ 116,386,000
Central Mortgage and Housing Corporation	107,843,000	93,349,000	85,525,000
Exchange Fund Account	62,833,000	63,552,000	62,594,000
Deposits with chartered banks	21,703,000	19,639,000	13,702,000
Farm Credit Corporation	21,012,000	13,934,000	10,869,000
Canadian National Railways	11,991,000	11,601,000	13,018,000
The St. Lawrence Seaway Authority	9,400,000	43,065,000	2,568,000
Special United States of America securities—			
Columbia River Treaty	9,212,000	1,150,000	—
Veterans' Land Act loans	9,075,000	8,308,000	7,373,000
Export Credits Insurance Corporation	6,782,000	3,047,000	1,061,000
Loans to national governments	6,451,000	6,383,000	26,301,000
Polymer Corporation Limited	4,500,000	4,000,000	3,500,000
National Harbours Board	4,150,000	3,425,000	3,475,000
National Capital Commission	3,254,000	2,858,000	2,319,000
Canadian Overseas Telecommunication			
Corporation	2,686,000	2,706,000	2,586,000
Northern Canada Power Commission	2,238,000	2,105,000	1,648,000
Eldorado Mining and Refining Limited	1,500,000	1,500,000	2,000,000
Securities Investment Account	1,330,000	6,504,000	4,059,000
Canadian Broadcasting Corporation	1,009,000	374,000	—
Other loans and investments	8,179,000	6,956,000	7,429,000
	<u>\$ 438,254,000</u>	<u>\$ 422,694,000</u>	<u>\$ 366,413,000</u>

The amounts shown for revenue from investment in the Bank of Canada represent annual profits earned by the Bank and paid to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c. 13.

Revenue from Central Mortgage and Housing Corporation for 1965-66 comprised \$102,590,000 (\$89,711,000 in 1964-65) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c.46, and \$5,253,000 (\$3,638,000 in 1964-65) representing the profit for the year ended December 31, 1965 which was transferred to the Receiver General as required by section 30 of the Act.

The amounts shown for revenue from the Exchange Fund Account represent earnings on investments of the Account. Such earnings are paid into the Consolidated Revenue Fund in accordance with the requirement of section 24 of the Currency, Mint and Exchange Fund Act, R.S., c.315.

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%, is earned on deposits with chartered banks in excess of an aggregate of \$100 million.

Revenue from The St. Lawrence Seaway Authority comprised \$9,400,000 received on account of interest deferred in the years 1962 and 1963. Current interest in the sum of \$15,820,000, not being received in cash, was credited to Deferred Credits.

Revenue of \$9,212,000 from special United States of America securities represents interest for the year ended November 1, 1965 at 4% to 4½% on an investment of \$219.5 million in medium-term non-marketable securities acquired on September 16, 1964. The increase of \$8 million over the previous year results from the securities having been held for the full twelve months.

The diminution in earnings of \$5.2 million in the Securities Investment Account was due to the smaller government investment in securities held for this Account throughout the year.

45. Net postal revenue. The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the past three years:

	1965-66	1964-65	1963-64
Gross postal revenue	\$ 275,994,000	\$ 263,704,000	\$ 235,808,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	33,593,000	28,828,000	29,936,000
Other	4,919,000	4,440,000	5,155,000
	<u>38,512,000</u>	<u>33,268,000</u>	<u>35,091,000</u>
Net postal revenue	<u>\$ 237,482,000</u>	<u>\$ 230,436,000</u>	<u>\$ 200,717,000</u>

The amounts shown for "Other" disbursements mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail

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forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

46. *Other non-tax revenues.* An analysis of the amount shown in the table in paragraph 40 for "Other non-tax revenues" for 1965-66, with comparable figures for the two previous years, is given in the following table:

	1965-66	1964-65	1963-64
Services and service fees	\$ 63,148,000	\$ 60,924,000	\$ 51,321,000
Proceeds from sales	22,935,000	24,250,000	28,445,000
Privileges, licences and permits	38,966,000	30,825,000	27,172,000
Refunds of previous years' expenditure	18,919,000	20,546,000	26,839,000
Bullion and coinage	11,217,000	12,299,000	9,717,000
Miscellaneous	14,579,000	11,560,000	9,048,000
	<u>\$ 169,764,000</u>	<u>\$ 160,404,000</u>	<u>\$ 152,542,000</u>

Comments on Expenditure and Revenue Transactions

47. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the year are brought to the attention of the House in this Report. Several matters of a similar nature relative to Crown corporations are also included.

48. *Governor General's special warrants.* Section 28 of the Financial Administration Act provides for urgent expenditures, not otherwise provided for, while Parliament is not in session. The text is:

28. (1) Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for the payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund.

(2) A special warrant issued pursuant to this section shall for the purposes of this Act be deemed to be an appropriation for the fiscal year in which the warrant is issued.

(3) Every warrant issued under this section shall be published in the Canada Gazette within thirty days after it is issued, and a statement showing all warrants issued under this section and the amounts thereof shall be laid by the Minister before the House of Commons within fifteen days after the commencement of the next ensuing session of Parliament.

(4) Where a special warrant has been issued pursuant to this section, the amounts appropriated thereby shall be deemed to be included in and not to be in addition to the amounts appropriated by the Act of Parliament enacted next thereafter for granting to Her Majesty sums of money to defray expenses of the public service for a fiscal year.

(5) For the purposes of this section, Parliament shall be deemed to be not in session when it is under adjournment sine die or to a day more than two weeks after the day the Governor in Council made the order directing the preparation of the special warrant.

The dissolution of Parliament on September 8, 1965 before full supply for the year 1965-66 had been granted, necessitated recourse to Governor General's special warrants to provide the funds for carrying on government services until the new Parliament was assembled on January 18, 1966. A total of \$920,591,867 was provided by five special warrants as follows:

- (a) one for \$163,176,450 on November 1, 1965 providing for expenditures during November 1965;
- (b) one for \$345,696,168 on November 29, 1965 providing for expenditures during 1965-66;
- (c) one for \$399,294,249 on December 29, 1965 providing for expenditures during 1965-66;
- (d) one for \$12,000,000 on January 7, 1966 which provided funds for the "International Food Aid Program, including commodity contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East and to the World Food Program"; and

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- (e) one for \$425,000 on January 17, 1966 which provided the funds for "Family Assistance under such terms and conditions as may be approved by the Treasury Board, in respect of children of immigrants and settlers" and "General Administration and District Offices" of the Department of National Revenue—Taxation Division.

The amounts included in these special warrants were subsequently included in the amounts authorized by Appropriation Act No. 1, 1966, 1966-67, c. 1, assented to on February 8, 1966.

When the 1965-66 special warrants were being prepared the departments were instructed by the Treasury Board that each vote and class of payments required special consideration in the light of section 28 of the Financial Administration Act. The Treasury Board also advised the departments to review and take into account the particular audit comments contained in the Auditor General's Reports for 1962-63 and 1963-64. These general instructions were supplemented by specific guidelines for determining (a) the items which might properly be provided for by special warrant and (b) the appropriate amount to be provided in each special warrant for each acceptable item.

In the Audit Office view these guidelines were not always followed in the preparation of the special warrants and a number of the items provided for did not meet the test of being "urgently required for the public good" as required by section 28 of the Act.

Furthermore, payments under the special warrants continued to be made after Parliament assembled on January 18, 1966 until Appropriation Act No. 1, 1966 was assented to on February 8, 1966. Payments made during this period cannot be said to be "urgently required for the public good when Parliament is not in session..."

Examples are as follows:

1. Two of the five special warrants included an item "Subject to the approval of the Treasury Board, . . . to supplement the payroll provisions of other votes . . .". Obviously payment of the amounts was not urgently required when the special warrants were issued, and the Governor in Council in effect delegated to the Treasury Board his authority under section 28 of the Act although there is no provision for such delegation.
2. Three of the special warrants included contributions or grants which require prior specific approval of Parliament:
 - (i) the special warrant dated November 29, 1965 included funds for a special voluntary contribution to the United Nations, in the amount of \$3,923,000;
 - (ii) the two special warrants dated November 29, 1965 and December 29, 1965 included a total of \$2,750,000 for "contributions to Ontario and Quebec of one-half of the aggregate of amounts paid by each such province in assisting eligible livestock producers who were affected by adverse weather conditions, to obtain feed during the period May 16, 1965 to May 31, 1966". The only payment made was \$190,000 to the Province of Ontario on January 13, 1966;
 - (iii) the special warrant dated December 29, 1965 included an amount of \$500,000 for "contributions to British Columbia of one-half of the aggregate of amounts paid by the Province to or in respect of eligible tree fruit and grape producers as a result of vine, fruit tree and crop losses incurred by such producers during the period December 1, 1964 to November 30, 1965 and a contribution to the Province in respect of the administrative expenses incurred in making such payments to producers";
 - (iv) an amount of \$1,000,000 was provided in the special warrant dated November 29, 1965 for "payments to eligible producers in Lake St. John and Abitibi-Temiskaming Regions of Quebec, in respect of

the aggregate loss of agricultural income suffered by all producers in each such region during the period July 1, 1964 to June 30, 1965, in accordance with terms and conditions prescribed by the Minister of Agriculture". No payments were made under this portion of the special warrant; and

(v) the special warrant dated January 7, 1966 provided \$12,000,000 to the Department of External Affairs for the "International Food Aid Program, including commodity contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East and to the World Food Program". Payments aggregating \$830,609 were made on January 27 and February 1, 1966, both days on which Parliament was sitting.

3. The special warrants dated November 29, 1965 and December 29, 1965 provided a total of \$4,100,000 for advances to Atomic Energy of Canada Limited "to finance the construction of the Douglas Point generating station; to share in the construction of the Pickering generating station under agreement between the Federal Government, the Province of Ontario and the Hydro Electric Power Commission of Ontario; to finance the construction of an engineering design office at Sheridan Park; to finance the construction of housing and other works near the Whiteshell Nuclear Research Establishment".

No advances were required because interim supply had provided \$7,094,500 of which \$394,500 remained unspent at February 28, 1966.

4. A total of \$48,000 was provided by the three special warrants dated November 1, 1965, November 29, 1965 and December 29, 1965 for administrative expenses of the Municipal Development and Loan Board.

Up to February 28, 1966 none of this money had been required by the Board.

5. The special warrant dated December 29, 1965 included \$1,350,000 for the Government contributions as employer under the Canada Pension Plan and the Quebec Pension Plan, and \$1,350,000 for "special accountable advances to or in respect of persons who are employed in the public service..." relative to their contributions to the Canada Pension Plan and the Quebec Pension Plan.

These sums were not utilized until February 17, 1966 and February 25, 1966, respectively, both days on which Parliament was sitting.

Following the use of Governor General's special warrants in 1962-63, the Public Accounts Committee recommended in its Fourth Report 1964 that a study be made of the procedures surrounding their use (see Appendix 1, item 8). In commenting on this recommendation the Minister of Finance advised the Chairman of the Public Accounts Committee on March 4, 1965 as follows:

...the Secretary of the Treasury Board undertook to consider the desirability of enlarging on the special Governor General's warrant provisions in the Financial Administration Act (in particular section 28) in order to clarify its application to situations arising when Parliament is dissolved without having appropriated the necessary expenses of the Public Service. Suggestions have been discussed for changes in this section of the Financial Administration Act, and these are now being studied. Should the Government decide that an amendment to the Act is desirable, it will present its proposals to Parliament in the usual way.

The Public Accounts Committee has not yet examined paragraph 45 of our 1964 Report in which we commented on Governor General's special warrants used during the months of April and May 1963, citing three items from these two warrants which did not meet the test of being "urgently required for the public good".

49. Revised vote pattern. In its Third Report 1963 the Public Accounts Committee recommended

Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

The vote pattern actually adopted for the 1964-65 Estimates differed in certain instances from the pattern which had been considered by the Public Accounts Committee and details of the more important variations were given in paragraph 51 of our 1965 Report together with examples of transfers of funds between services which would not have been possible under the previous vote pattern. Similar transfers were made in 1965-66.

The following additional changes in the vote pattern were introduced in the 1965-66 Estimates:

1. The vote pattern considered by the Public Accounts Committee in 1963 included separate votes for Construction and for Operation and Maintenance for each of the three Services of the Department of National Defence. In the 1964-65 Estimates there was only one vote for each Service which provided for both Construction and Operation and Maintenance. As pointed out in last year's Report this permitted transfers by the Treasury Board of substantial amounts between the Operation and Maintenance allotments and the Construction allotments in the three Services votes for the purpose of utilizing available funds in these allotments.

A further amalgamation took place in the 1965-66 Estimates when one vote only was provided for both Construction and Operation and Maintenance for all three Services. The explanation for this further amalgamation of votes given in Treasury Board Minute T.B. 634728 of December 31, 1964 is as follows:

The Board agreed to the amalgamation into one vote for 1965-66 of the cash requirements in the amount of \$1,382,244,000 for the three armed services in the interests of facilitating the process of integration and providing maximum flexibility in the use of 1965-66 cash, subject, however, to the following conditions:

- (a) that transfers of cash between the capital and operating primaries will be made only with the Board's specific approval in each case; and
- (b) that no assurance is given that the single vote will be continued beyond 1965-66 in view of current plans for implementing a system of program budgeting for all departments.

In addition to a transfer of \$9,180,000 from the Air Force Construction allotment to the Air Force Operation and Maintenance allotment which was made possible by the amalgamation of the Construction and Operation and Maintenance votes introduced in the previous year, the further amalgamation in 1965-66 of the separate votes for the three Services permitted the transfer of:

- (1) \$18,420,000 from the Air Force Construction allotment to the Army allotment for Operation and Maintenance.
- (2) \$ 1,530,000 from the Navy Operation and Maintenance allotment to the Army allotment for Operation and Maintenance, and
- (3) \$ 1,060,000 from the Navy Construction allotment to the Army Construction allotment.

2. The vote pattern recommended by the Public Accounts Committee in 1963 included for the Air Services of the Department of Transport four Administration, Operation and Maintenance votes, one each for General Administration, Civil Aviation, Telecommunications and Meteorological services. In the 1965-66 Estimates these four appropriations were amalgamated.

Similarly three former Construction votes for Civil Aviation, Telecommunications and Meteorological services were amalgamated.

Previously there had been a separate vote for "Payments to the Canadian National Railway Company of the difference between revenues and expenses in the operation and maintenance of telecommunication facilities...". In 1965-66 this was combined with the vote for "Civil Aviation—Contributions to assist...local airports, payments to... International Agencies and other grants for development of civil aviation".

3. For many years an appropriation has been provided to the Department of Finance to meet "Miscellaneous minor or unforeseen expenses" subject to the approval of the Treasury Board. Similarly another appropriation has been provided "To supplement other votes, subject to the approval of the Treasury Board, for the payment of salaries, wages and other payroll charges". In 1963-64 a supplementary appropriation was provided "to supplement...the estimates of other departments in order to provide for an accelerated construction and repair program".

The revised vote pattern, studied by the Public Accounts Committee in 1963, included a vote for "Contingencies—To supplement the payroll provisions of other votes; for miscellaneous expenses not otherwise provided for...and for unforeseen expenses generally..."

The text used in the 1964-65 Main Estimates for Department of Finance Vote 15 was as follows:

Vote 15—Contingencies—Subject to the approval of the Treasury Board, (a) to supplement the payroll provisions of other votes; (b) for miscellaneous minor or unforeseen expenses; and (c) for awards under the Public Servants Inventions Act; including authority to re-use any sums repaid to this appropriation from other appropriations.

Supplementary Estimates (B) extended the purposes of the vote:

Vote 15b—Contingencies—To extend the purposes of Vote 15 of the Main Estimates to supplement, in such amounts and in accordance with such terms and conditions as the Treasury Board may prescribe, the Estimates of other departments in order to provide for an accelerated construction and repair program and to provide a further amount of \$5,000,000.

The text of Vote 15 was the same in the 1965-66 Main Estimates which provided an amount of \$6 million. This was increased \$35 million by Supplementary Estimates (B), \$25 million by Supplementary Estimates (D), and \$5 million by Supplementary Estimates (E), bringing the total appropriated for Vote 15 to \$71 million.

The text of Vote 15d which provided an additional \$25 million in Supplementary Estimates (D) was as follows:

Vote 15d—Contingencies—To extend the purposes of Finance Vote 15 of the Main Estimates for 1965-66 to supplement, in such amounts and in accordance with such terms and conditions as the Treasury Board may prescribe, the 1965-66 and 1966-67 Estimates of other departments in order to provide for a winter construction and repair program and to provide a further amount of \$25,000,000.

The supplementary information given to Parliament in Supplementary Estimates (D) indicated that of the \$25 million requested, \$20 million was to supplement other votes, subject to the approval of the Treasury Board, for the payment of salaries, wages and other payroll charges and \$5 million was to supplement the 1965-66 and 1966-67 estimates of other departments in order to provide for a winter construction and repair program.

At the close of the year, \$4,339,000 was still available in Vote 15 and it is this amount that has been regarded as available to supplement the 1966-67 estimates of other departments in order to provide for a winter construction and repair program although the

amount unused in the \$5 million allotment for the winter construction and repair program was only \$3,215,000.

It should be noted that in 1966-67 the text of this vote was changed to read:

Vote 15—Contingencies—To supplement other votes and to provide for miscellaneous minor and unforeseen expenses not otherwise provided for including awards under the Public Servants Inventions Act, subject to the approval of the Treasury Board, and authority to re-use any sums repaid to this appropriation from other appropriations.

In recent years there has been a tendency by means of special wording of vote texts to set aside the provisions of section 35 of the Financial Administration Act under which funds remaining unexpended at the end of the fiscal year lapsed. In paragraph 11 of this Report there appears a listing of amounts aggregating \$88.8 million (including the \$4,339,000 referred to above) in six votes which did not lapse but remained available for expenditure in 1966-67. This is the largest amount ever treated in this way, being more than double the comparable amount in the previous year.

50. Recording of commitments. Subsection (1) of section 30 of the Financial Administration Act provides that no contract involving the payment of any money shall be entered into or have any force or effect unless the Comptroller of the Treasury certifies that there is a sufficient unencumbered balance available out of an appropriation or out of an item included in estimates before the House of Commons to discharge any commitments under such contract.

In the event of an accident or other emergency an exception is provided in subsection (4) of section 30 which reads:

30. (4) Where the Comptroller is satisfied that an agreement was entered into in order to defray an immediate expenditure that, through accident to public property or other emergency, was necessary to protect such property or to provide for such emergency, he may issue his certificate accordingly and thereupon the agreement is exempt from the operation of subsection (1) from the time the agreement was entered into.

Since 1957 the Government has encouraged various departments to carry out "winter works" projects in order to alleviate unemployment during each winter season. In November 1961 the Comptroller of the Treasury was unable to certify that funds were available to meet commitments under contracts proposed for "winter works" projects because there was no appropriation available at the time nor was there an item included in estimates before the House of Commons (see 1962 Report).

In order to avoid having the program held up the Treasury Board directed the Comptroller of the Treasury as follows:

To avoid any delay in the implementation of this emergency program, the Board would like you to record commitments on a provisional basis until such time as the additional provision is appropriated.

A similar situation existed in December 1965 and under date of December 22 the Treasury Board gave the same direction to the Comptroller of the Treasury.

Inasmuch as federal winter works programs have been established in each of the last nine years, such programs can hardly be considered as being required to meet an

emergency so far as forward estimating is concerned. Therefore entering into "winter works" contracts under the circumstances described above is contrary to the provisions of section 30 of the Financial Administration Act.

51. *Prairie Farm Emergency Fund.* This Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act, R.S., c. 213. Under the Act a levy of 1% is imposed on the price of grain purchased by licensees under the Canada Grain Act, R.S., c. 25, and the moneys collected are credited to the account. Awards are made to eligible farmers in areas affected by crop failure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During the year collections amounted to \$10,338,000 and awards to \$7,043,000, resulting in a surplus of \$3,295,000 compared with deficits of \$367,000 in 1965 and \$1,073,000 in 1964.

In previous Reports we have noted a number of items that we considered unsatisfactory in the administration of the Act and the Public Accounts Committee requested the Auditor General to keep the matters before the House and the Committee. Previous recommendations were that:

- (1) the Board of Review, established under the Act to decide questions concerning eligibility for awards and other relevant matters, be required to keep minutes which would disclose its policy and reasons for its decisions;
- (2) the permanent staff of the Prairie Farm Assistance Administration be placed under the Civil Service Commission;
- (3) eligibility for awards of all marginal land on which crop failures continuously occur from year to year be eliminated;
- (4) no awards be paid to a farmer occupying part of a section of land if the average yield of wheat of the relative part of the section is 12 bushels or more per acre. (Under present rules, a farmer occupying part of a section of land is entitled to an award even though the yield of his land exceeds 12 bushels per acre if the other occupant of this particular section has a yield low enough to bring the average yield for the section below 12 bushels per acre);
- (5) section 7 of the Act which requires every award to be made in the month of December be repealed;
- (6) all farmers in an area affected by crop failure be required to complete cultivated acreage reports when a municipality makes an application for assistance. (The present system of processing cultivated acreage reports through the employment of a large number of inspectors is expensive and does not ensure accuracy); and
- (7) as a condition precedent to a farmer having a right to receive an award, he be required to set forth in his permit book, at the time he receives it, a statement of grain on his farm. (New permit books are issued to farmers in July of each year before the commencement of harvest. If a farmer disclosed the amount of grain he had in storage on the farm at the time he received his new permit book, then the number of bushels that were subsequently harvested could be determined).

In its Seventh Report 1966, the Public Accounts Committee stated that it is important that these matters be rectified and recommended that appropriate legislation be introduced as soon as possible (see Appendix 1, item 43).

We have recently been informed that the Board of Review intends to keep minutes in future.

52. Improper charge to 1965-66 appropriation. The Department of Agriculture proposes to consolidate certain of its research activities in the Province of Quebec at Laval University in a building to be erected on the University campus. By Order in Council P.C. 1966-2/104 of January 19, 1966 approval was given for the purchase of the site for \$184,680.

The closing of the transaction was delayed while certain special conditions to be incorporated in the deed of sale were resolved and, in fact, title to the land has not yet been obtained. The cheque in settlement of the purchase price had been forwarded to the Department of Justice on March 31, 1966 but, under the circumstances, it was not a proper charge to the 1965-66 appropriation.

53. Cost of unused plans for grain elevator extension, Prince Rupert, B.C. A consulting engineering firm estimated in January 1965 that a proposed million bushel capacity extension to the Prince Rupert Elevator would cost \$1,415,000. On February 26, 1965 the Treasury Board authorized entry by the Board of Grain Commissioners into a contract with this firm for the preparation of detailed plans and specifications and for supervision of the construction of the extension for a fee of up to \$85,000. The agreement with the consulting engineers was signed on September 21, 1965.

Plans and specifications were prepared and bids were called for the construction contract. The lowest tender submitted was for \$2,965,000 and, as a result of the large variation of \$1,550,000 from the original estimate, the Treasury Board denied approval to the Board of Grain Commissioners to enter into the proposed contract.

The original estimate had been based on costs of similar construction elsewhere in Canada and failed to take into consideration the higher labour rates, special labour conditions and other factors that would be involved in the construction of the elevator extension in the Prince Rupert area. Additional labour costs account for \$1,140,000 of the discrepancy. The balance of the difference was due to higher costs of concrete and fill material in the Prince Rupert area and general escalation of prices.

The agreement with the consultants provided for fees to be paid on the basis of 2/5 of 6% of approved estimated cost after completion of preliminary plans, budget estimates and tender documents plus the net cost of approved services of others engaged on the project. The balance of 3/5 of 6% was to be paid in progressive stages following tender acceptance and during the active stages of construction. As no tender was accepted, the fees, according to the agreement, should have been \$38,126.

The consulting engineers submitted a claim for \$77,479 based on the Department of Public Works standard form of agreement which makes provision for settlement on a quantum meruit basis in the event of contract termination. Notwithstanding that no such provision was included in this particular agreement the claim was accepted.

Approval for construction had not been granted by the Treasury Board up to October 31, 1966, although planning in the Department of Agriculture to reduce the project's overall cost indicates that the project may have been only temporarily postponed, not cancelled.

54. Method of financing capital expenditures of the Canadian Broadcasting Corporation. The funds required by the Canadian Broadcasting Corporation to meet its capital expenditures during the years ended March 31, 1965 and 1966 were provided by means of loans from the Government of Canada. Loans outstanding at March 31, 1965 amounted to \$14,250,000 of which \$712,000 was repaid in 1965-66. Additional loans amounting to \$13,167,000 were provided in 1965-66 bringing to \$26,705,000 the amount outstanding at the end of that year.

These loans are repayable by the Corporation in equal annual instalments over 20 years at interest rates varying from $5\frac{1}{4}\%$ to $5\frac{5}{8}\%$ per annum and are included as an asset in the item "Loans to, and investments in, Crown corporations" on the Statement of Assets and Liabilities of Canada (see paragraph 155). The interest on these loans must be paid, and the loans must eventually be repaid, with funds provided by parliamentary appropriations. The procedure being followed violates a long-standing principle of the Department of Finance that assets which are non-interest or non-revenue producing be charged to expenditure at the time of acquisition or construction. The Public Accounts Committee in its Seventh Report 1966 expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada (see Appendix 1, item 41). The procedure was commented on in our 1965 Report (paragraph 55) and is further dealt with in paragraph 172 of this Report.

The wording of Canadian Broadcasting Corporation Vote 1, in respect of the net operating requirements of the Corporation for 1965-66, did not disclose that \$712,000 was included for repayment of these loans and that \$1,009,000 had also been included for interest charges. The estimates that have been submitted to Parliament in respect of the operating requirements of the Corporation for 1966-67 likewise do not disclose the amounts required for repayment of loans and interest charges. Receipt of the interest by the Department of Finance is recorded under the heading "Non-tax revenues—return on investments". This has the effect of increasing the recorded amount of both revenues and expenditures of Canada in violation of generally accepted accounting principles. Although the Deputy Minister of Finance has undertaken to review the accounting treatment with the Auditor General no action has yet been taken.

55. Salaries and wages paid for work not performed. In our 1965 Report (paragraph 56) reference was made to a special study of the payrolls of the Canadian Broadcasting Corporation which indicated that payments amounting to approximately \$50,000 had been made to employees for scheduled hours during daily or weekly tours of duty which were in excess of the actual hours of attendance.

The payments were made in accordance with the provisions of the various union agreements and the Corporation regards payment of compensation calculated in this manner as proper, having regard to the effect of scheduling requirements for its present studio facilities, the availability of artists, the exigencies of actuality broadcasts and the nature of broadcast program production.

There has been no change in this situation during the past year, payments having continued to be made by the Corporation for work not performed. The practice is referred to again in accordance with the request of the Public Accounts Committee that particulars of non-productive expenditure of public funds noted in the course of our work be brought to the attention of the House.

56. *Financing of the 1967 World Exhibition.* Paragraph 194 in the Crown corporations section of this Report includes comments on the operations of the Canadian Corporation for the 1967 World Exhibition during the past year.

As explained in that paragraph, the existing legislation provides that grants provided by Canada, the Province of Quebec and the City of Montreal must not exceed \$20 million, \$15 million and \$5 million respectively, a total of \$40 million. The federal contribution is limited to \$20 million under section 11 of the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, c. 12.

The present revised overall plan approved by Canada and the Province of Quebec, as provided for under section 10 of the Act, shows estimated total costs of \$332,846,000 for the Exhibition, with revenues, salvage and assets remaining estimated at \$250,190,000. As this latest estimate indicates a net cost or deficit of \$82,656,000 at the close of the Exhibition, after allowing an estimated \$60,508,000 for the value of the assets remaining at that time, it follows that the Corporation's total requirement by way of grants is \$143,164,000 based on present estimates.

The total amount of the grants of \$40 million provided for by legislation was received by the Corporation between March 14, 1963 and August 2, 1965. Since additional funds were required, the Corporation made arrangements, pursuant to section 12 of the federal Act, to issue securities guaranteed by Canada and Quebec. Department of Finance Vote L26b, Appropriation Act No. 2, 1966, 1966-67, c. 3, provided for the purchase, acquisition, and holding of these securities by the Minister of Finance to the extent of \$80 million. A further \$110 million for the purchase of securities to be issued by the Corporation was provided by Department of Finance Vote L30, Appropriation Act No. 9, 1966, 1966-67, c. 55.

Up to December 31, 1965, the Government had made loans to the Corporation against such securities to a total of \$22 million. At March 31, 1966 the amount was \$44 million, and by September 30, 1966 the figure had risen to \$95 million. These loans are treated by the Department of Finance as assets.

Because of the limits imposed by the present legislation of Canada and the Province of Quebec as to the amount of the grants which may be made to the Corporation, changes

will be required in this legislation before the additional substantial grants required can be made. In last year's Report (paragraph 57) we pointed out that unless these additional grants are provided, the total requirement, presently estimated at \$143,164,000 (less the \$40 million already granted) will have been financed by loans, and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for repayment of the indebtedness.

The Public Accounts Committee discussed the financing of the Corporation with officers of the Department of Finance at its meeting held on June 16, 1966. In its Seventh Report to the House of Commons the Committee expressed its concurrence with our views and recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal (see Appendix 1, item 42).

57. General election expenditure. Expenditure on the general election held on November 8, 1965 totalled \$13,055,000 up to October 31, 1966 compared with the \$12,476,000 cost of the 1963 general election. The net increase of \$579,000 is largely attributable to the growth of the urban electorate by some 365,400 electors.

The following financial aspects of the administration of the 1965 general election were noted in the audit:

1. **EXPENDITURE ANALYSIS**—The 1965 election expenditure by five main classifications shows the following comparisons with the 1963 totals: returning officers' services and office expenses \$1,690,400 (\$1,650,300), printing \$2,403,900 (\$2,323,300), preparatory work \$180,200 (\$135,400), enumeration \$4,991,400 (\$4,759,700), polling station accounts \$3,358,000 (\$3,230,400), and general accounts \$431,300 (\$377,200).
2. **ADVANCE POLLS**—Under the provisions of the former Canada Elections Act, R.S., c. 23, the privilege of voting at an advance poll was restricted to persons whose occupations necessitated absence from their ordinary places of residence on polling day. It was also provided that if less than 15 votes were cast at an advance poll, the Chief Electoral Officer should delete the name of that place from the authorized schedule of advance polls.

The Canada Elections Act, 1960, c. 39, extended the privilege of voting at an advance poll to any elector who has reason to believe that he will be absent from his polling division and unable to vote on the ordinary polling day and dropped the provision regarding the disestablishment of an advance poll where less than 15 votes were cast.

Less than 15 votes were cast at 371 of the 1,822 advance polls established for the 1965 election. No votes were cast at 16 of the advance polls, one vote was cast at each of 20 polls and 2 votes were cast at each of 20 polls.

3. **ADVANCES MADE TO ELECTION OFFICERS**—Section 60 of the Canada Elections Act specifies that fees or allowances for deputy returning officers and poll clerks and rental of polling stations shall be paid by special warrants drawn on the Comptroller of the Treasury and that all other claims relating to the conduct of an election shall be paid by separate cheques issued from the Office of the Comptroller of the Treasury at Ottawa. Although the Act does not provide for advances to returning officers, advances aggregating

\$410,000 were made to all but 28 of the returning officers for the payment of expenses in connection with the 1965 general election.

In June 1958 we suggested to the Chief Electoral Officer and to the Comptroller of the Treasury that, until such time as the Canada Elections Act might be amended, the claims should be paid by separate cheques issued from the Office of the Comptroller of the Treasury at Ottawa, and sent directly to each person entitled to payment as stipulated by the Act.

The provisions of section 60 of the former Act were retained, without material change, in the Canada Elections Act, 1960; c. 39, and in April 1962 we again drew attention to the lack of authority for advances to election officers.

The Chief Electoral Officer, in his report to the Speaker of the House of Commons on the 1962 general election, recommended that the Canada Elections Act be amended to provide authority for the payment of an accountable advance to an election officer, limited to an amount deemed necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

In its Eighth Report 1964 the Public Accounts Committee recorded its support of the recommendation by the Chief Electoral Officer and expressed the hope that the amendment would be considered by Parliament at an early date (see Appendix 1, item 28).

There has been no amendment to the existing legislation since it was enacted in 1960.

4. CANDIDATES' DEPOSITS—A returning officer substituted his \$800 uncertified personal cheque for the deposits of four candidates. This cheque, received by the Comptroller of the Treasury on November 8, 1965, was returned on December 28, 1965 marked "not sufficient funds". In the meantime the returning officer had been paid \$1,950 for election expenses. The \$800 was subsequently recovered but the incident indicates a need for revision in the Chief Electoral Officer's instructions concerning the handling of candidates' deposits. These now direct a returning officer to substitute his personal certified cheque for deposits received in cash. We would recommend that returning officers be required to obtain bank drafts payable to the Receiver General for all deposits received in cash.

58. *Payment of additional remuneration to employees.* Section 14 of the Civil Service Act, 1960-61, c. 57, provides in part as follows:

14. (1) Unless authorized by or under this Act or any other Act of Parliament, no payment additional to the remuneration authorized by law shall be made to any employee in respect of any service rendered by him.

(2) Nothing in this section shall be construed to prohibit

- (a) payment to an employee of remuneration in respect of each of two or more positions, if that remuneration in respect of one position is not sufficient to compensate him for his whole time and the total remuneration of the employee does not in the opinion of the Commission exceed reasonable remuneration for the duties performed;

In the Civil Service Act the term "employee" means a "person employed in the civil service" as opposed to the wider public service.

From the following examples it may be seen that payments additional to remuneration authorized by law may be made with the approval of the Civil Service Commission and/or the Treasury Board:

- A person who had been appointed by the Governor in Council to a senior post in the public service was subsequently appointed to a part-time position in the civil service at

salary of \$4,500 per annum. This person was thus simultaneously in receipt of the salary fixed by Parliament for the senior position in the public service plus \$4,500 established by the Governor in Council as the remuneration of the part-time position in the civil service.

- Payments totalling \$2,100 were made to four senior civil servants as honoraria for services rendered by them to another department. In these cases, the Treasury Board by Minute of March 31, 1966 pursuant to sections 68(1) and 74 of the Civil Service Act directed that the positions occupied by the four senior civil servants be excluded from the operation of subsection (1) of section 14 of the Civil Service Act so that they might be eligible to receive payment of the honoraria and that subsection (1) of section 14 be re-applied immediately thereafter.

59. *Surplus in Defence Production Revolving Fund.* In last year's Report (paragraph 60) we drew attention to the surplus that has been allowed to accumulate in the Defence Production Revolving Fund. This Revolving Fund was established under section 16 of the Defence Production Act, R.S., c.62, in an amount not to exceed \$100 million for the purpose of acquiring, storing, maintaining and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The section provides that no amount may be credited to the Revolving Fund to reimburse the Fund for any loss sustained except pursuant to an appropriation by Parliament for that purpose. However, the Act is silent with respect to the treatment of any surplus.

The Financial Administration Act requires that a surplus in a revolving fund be "transferred from the revolving fund as revenue" and, like the Defence Production Act, that "no amount may be credited to the revolving fund to meet the deficiency except with the authority of Parliament". These directions with regard to treatment of surpluses and deficits seem to us to clearly indicate that Parliament wishes to be made aware of losses sustained through the operations of revolving funds and does not intend that any such losses be absorbed by a previously accumulated surplus.

The surplus balances in the Defence Production Revolving Fund at the end of the past two years comprise:

	March 31	
	1966	1965
Interest received under aircraft sales contracts	\$ 1,564,000	\$ 1,111,000
Interest received on working capital advances	34,000	14,000
Net profit on strategic material inventory transactions	735,000	731,000
	<hr/>	<hr/>
	2,333,000	1,856,000
Less: Warehousing and other expenses relating to inventories still on hand	47,000	38,000
	<hr/>	<hr/>
	\$ 2,286,000	\$ 1,818,000
	<hr/>	<hr/>

In the absence of specific provisions in the Defence Production Act with respect to the treatment of surplus, departmental officers have taken the view that surplus,

whether derived from interest earned or profit on a strategic material inventory that has been completely disposed of, should be retained in the Fund as protection against possible losses on similar transactions in the future.

In our opinion the accumulation of revenues against which future losses might be charged weakens parliamentary control. If a loss occurs because amounts due the Crown under aircraft sales contracts cannot be collected or if a write-off is required because some strategic material stockpiled by the Government can only be liquidated below cost then Parliament should be informed of, and be given an opportunity to discuss, such losses by means of a prompt request for an appropriation to recoup the Revolving Fund. The interest earned by a revolving fund represents the income on the funds employed and should be transferred from that fund as budgetary revenues.

60. *Unauthorized use of the Defence Production Revolving Fund.* Department of Defence Production Vote 5 provides funds each year for the Defence Industry Modernization Program under which grants are made to the Canadian defence industry for the acquisition of capital equipment to assist it in meeting the technological standards necessary to compete in international markets.

The expenditure of the funds is the responsibility of the Minister of Defence Production subject to the approval of the Treasury Board. Although the annual appropriation imposes no unusual restriction, the policy of the Department is to acquire title to the machinery for which assistance is being given by arranging to 'purchase' it from the manufacturer being assisted or by having its original purchase made by him acting as an agent for the Department. Payment is then made by the Department, 50% of the price being charged to the appropriation and 50% to the Defence Production Revolving Fund. The Department then 'sells' the machinery to the manufacturer being assisted at 50% of its cost payable over five years without interest with title passing on payment of the final instalment.

Regardless of the paperwork processed by the Department, the net result is the financing of the full cost of the machinery, half of the amount with funds from the appropriation and the remaining half by means of a loan from the Revolving Fund.

From the inception of the Program in July 1964 to March 31, 1966, \$5.5 million has been made available in this manner to assist the Canadian defence industry, half of which has been advanced from the Revolving Fund.

Section 16(2)(c) of the Defence Production Act, R.S., c.62, expressly prohibits the making of loans to assist in the acquisition of capital equipment. Consequently, it is the view of the Audit Office that the advances from the Defence Production Revolving Fund aggregating \$2.75 million, have been made without authority.

61. *Department of External Affairs missions abroad.* Reference was made last year (paragraph 61) to funds not accounted for in 1961 at one of the embassies visited by the Audit Office in the course of its test examinations. Two of the three employee

believed to have been concerned with the handling of the funds at that time left the service shortly afterwards and the Department's efforts to trace one of them for purposes of questioning have been unsuccessful. The two who were questioned have denied that they had anything to do with the financial records of the embassy at the time of the transactions. The Department has since obtained Treasury Board authority to make payment to the transportation company which has denied receiving the funds which were recorded as having been paid to it in 1961.

In November 1964 we suggested to the Department that steps be taken to set up a small internal audit staff to make periodic examinations of the financial transactions and related administrative procedures at embassies and missions abroad. Such examinations should include all cash funds kept by representatives of other departments stationed at the embassy (see paragraph 82). Although the Department obtained Treasury Board approval on April 22, 1966 for establishment of this audit staff, it has not yet commenced to function due to unavoidable delay in recruiting qualified personnel.

In the meantime, the Audit Office undertook to make test examinations at a number of posts to the extent this work could be integrated with other assignments so as to keep travel overhead to a minimum. During the past year ten diplomatic missions were visited and detailed reports containing an outline of the work done, together with our comments and suggestions, were provided to the Department. Two suggestions which we believe should be implemented without delay are:

1. Posts abroad are required to submit estimates of proposed expenditure for the ensuing year. However, they are not informed as to the extent to which these estimates are approved. Neither are they provided with monthly statements of their expenditures. In the interest of effective financial control each post should be required to live within its budget and should receive monthly statements showing a comparison of its expenditures for the month and for the year to date, with its budget.
2. With minor exceptions, Canadians at posts abroad are permitted to import certain goods free of duties and taxes. Although an abuse of this privilege is serious, the posts are not required to maintain records of such purchases. We have recommended that complete records should be maintained in this respect and that the exercise of the privilege should be supervised at a high level.

62. Indirect compensation to chartered banks. In previous Reports reference has been made to the practice of the Government of maintaining large balances on deposit with the chartered banks, receiving interest only on the balances in excess of an aggregate of \$100 million. The view was expressed that this constituted indirect compensation to the chartered banks for services provided to the Crown and was contrary to section 93(1) of the Bank Act, 1953-54, c. 48.

The Public Accounts Committee in its Fourth Report 1963, Sixth Report 1964 and Seventh Report 1966 has expressed the view that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act (see Appendix 1, item 21).

At the 1966-67 session of Parliament, Bill C-222 entitled "An Act respecting Banks and Banking", was given second reading and referred to the Standing Committee on Finance, Trade and Economic Affairs on October 6, 1966. Clause 93 of this Bill reads as follows:

93. (1) The bank shall not make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(2) Nothing in subsection (1) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

(3) The bank shall not, directly or indirectly, charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer.

Subclause (2), quoted above, is evidently designed, as was an identical clause in a previous Bill commented upon in our 1965 Report (paragraph 62), to permit the continuation of the practice of compensating banks indirectly for services provided to the Crown, by keeping non-interest-bearing funds (currently an aggregate of \$100 million) on deposit with them. In its Seventh Report 1966 the Committee expressed the opinion that the then proposed amendment did not meet the recommendation of the Committee and it asked the Department of Finance for explanations on three points:

- (1) why an amount of \$100 million should be left on deposit with the chartered banks free of interest;
- (2) why, if the Department considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this; and
- (3) what other means of compensating the banks for services rendered were considered and why they are being discarded.

63. Errors in Public Service Superannuation Account pension and contribution calculations. Comments under this heading have appeared in our Reports to the House for the past five years. The Public Accounts Committee in its Fourth Report 1963 recorded its concern over the high incidence of error in the superannuation accounts and in its Sixth Report 1964 expressed its further concern that the matter was taking so long to be corrected (see Appendix 1, item 18).

Our test audit during 1965-66 disclosed approximately the same incidence of error as in 1964-65. An analysis of the errors indicated that more than half of them had been made within the year.

Last year we reported that the Superannuation Branch had established a special review unit to check in detail the files of all contributors between the ages of 55 and 63 in order to locate any financial discrepancies before the contributors leave the service

There were then some 25,000 contributors in this age group and the Branch decided to delay checking the files of those over 63 until the respective retirement dates.

As at November 30, 1966, the special review unit had completed the review of the files of all contributors who were in the 59 years to 63 years age group on April 1, 1964.

We have been recommending since 1959 that the Superannuation Branch, when determining annuities to be paid, should verify contributions made in relation to salary earned and the documents on file. This procedure would automatically indicate errors made at any time during the period of service and reduce the possibility of error in calculating the annuity. On June 16, 1966 the Comptroller of the Treasury informed the Public Accounts Committee that a procedure would be introduced by July 1 whereby the Superannuation Branch would ensure that proper superannuation contributions had been reserved from salary for the pensionable service credits allowed. Accordingly, the Superannuation Branch was directed to effect a final reconciliation, at retirement or at the end of 35 years pensionable service, of all contributions required with respect to the entire period of pensionable service.

In its Seventh Report 1966, the Public Accounts Committee recorded its understanding that the immediate introduction of the internal auditing steps outlined to the Committee by the Comptroller of the Treasury should eliminate the majority of the errors in the pension and contribution calculations. The Committee requested the Auditor General to continue to keep it fully informed on this matter.

Reference has been made in our Reports for the past three years to the lack of verification of the correctness of contributions reported to the Central Pay Division in respect of employees of various Crown corporations. We were advised in 1964-65 that action would be taken to correct the situation. Contributors' accounts in this category, which numbered only 4,353 at December 31, 1959, had increased to 8,685 at December 31, 1965. We have been informed by the Central Pay Division that the 4,353 accounts have been posted, verified and reconciled to December 31, 1959 and 3,728 accounts have been posted, verified and reconciled to December 31, 1964. Lack of information available only from the respective corporations has delayed the completion of this project.

64. *Special assistance to fishermen.* During the year \$1 million was appropriated (Department of Fisheries Votes 15d and 15e) for:

Payment, subject to such terms and conditions as the Governor in Council prescribes, of assistance to fishermen whose income from fishing in the calendar year 1965 was less than their income for fishing in 1964 due to circumstances beyond the control of such fishermen.

Pursuant to this appropriation the Governor in Council prescribed assistance of up to \$350 to a married fisherman with dependents and up to \$200 to a single man, and in so doing reiterated that the intent was to assist fishermen whose income from fishing in the calendar year 1965 was less than their 1964 fishing income due to circumstances beyond their control.

The assistance program was implemented by the Department of Fisheries with the co-operation of the Unemployment Insurance Commission. However, the basic requirement that 1965 income be unfavourable in relation to 1964 income was not included in the arrangement, the officials being of the opinion that this was impractical. Instead, a single man, who qualified as a bona-fide fisherman on the basis of at least five fishing "contribution weeks" during the period March 28, 1965 to December 26, 1965, was assured of an income supplement of \$200 made up of his entitlement to unemployment insurance benefits, if any, plus the special assistance from the Department. Similarly, a fisherman with dependents was assured of \$350.

A weakness in this arrangement was that since the Department made the assistance payments on the strength of information provided by the Unemployment Insurance Commission, a fisherman was not required to make an individual application for assistance. In some instances, after receiving special assistance, fishermen qualified for unemployment insurance benefits with the result that assistance overpayments occurred. If they had been required initially to apply for the assistance and to attest that all earned unemployment insurance stamps had been reported to the Commission, the Department would presumably have avoided making a number of assistance overpayments and would be in a better position to enforce recovery than is now the case. Known overpayments in 1965-66 amounted to \$64,000 of which only \$32,000 has been recovered.

Expenditure for the year amounted to \$996,778. Further outlays totalling \$152,306 have been made from additional appropriations provided in the 1966-67 fiscal year.

To the extent that payments were made to fishermen whose income from fishing in the calendar year 1965 was not "less than their income for fishing in 1964 due to circumstances beyond the control of such fishermen" the money provided by these appropriations was expended for a purpose other than that for which it had been appropriated by Parliament.

65. Subsidization of Fishermen's Indemnity Plan. References were made in our 1964 Report (paragraph 53) and our 1965 Report (paragraph 66) to the two accounts, the Lobster Trap Indemnity Account and the Fishing Vessel Indemnity Account, which are maintained in connection with the Fishermen's Indemnity Plan which was introduced in 1953-54. As was pointed out, although the Plan was intended to be self-supporting (except for its administrative costs which are met through parliamentary appropriations) both accounts have recorded net deficits from their inception.

The deficits for 1965-66 amounted to \$3,335 in the Lobster Trap Indemnity Account compared with a deficit of \$10,127 in the previous year and \$52,665 in the Fishing Vessel Indemnity Account compared with a deficit of \$70,872 in the previous year.

The comparatively small deficit in the Lobster Trap Indemnity Account reflects the continuation of the trend toward diminishing deficits in this Account but it is apparent that this is due largely to the fact that the number of fishermen availing themselves of the Lobster Trap Indemnity plan has been decreasing steadily. This is

illustrated by the fact that premium revenue which was at an all-time high of \$44,000 in 1961-62 reached an all-time low of \$1,671 in 1965-66.

Two years ago we were informed that the Department of Fisheries was engaged in a detailed study to ascertain the extent to which factors other than weather might have been operative in causing the all-time high deficit of \$168,000 in the Fishing Vessel Indemnity Account in 1963-64 and to determine what further changes in the regulations are practicable or to what extent the premium rates should be revised. Although the study by the Department's Economics Service was completed more than a year ago, it is still being considered by a special policy committee set up by the Minister and there have as yet been no further changes in the regulations or premium rates. We have been informed, however, that as the study revealed a particularly high loss ratio among older vessels, the cost of meeting claims relating to these vessels has been reduced by applying higher depreciation rates in the valuation of the vessels for purposes of premiums and indemnity payments.

66. Continued upkeep of facilities by the Maritime Marshland Rehabilitation Administration. The Maritime Marshland Rehabilitation Act, R.S., c.175, was enacted to provide for the reclamation and development of marshlands in the Provinces of New Brunswick, Nova Scotia and Prince Edward Island. It provides for the construction and reconstruction by the Federal Government of dykes, aboiteaux and breakwaters and for assistance to the provinces with respect to like works.

The Act requires that in advance of work being undertaken in any province, the province enter into an agreement with Canada providing among other things for the province to maintain the works in satisfactory condition. This responsibility, however, was to be assumed at such time as the responsible Minister might designate.

Agreements were entered into by each of the provinces in 1949 and in the intervening years to March 31, 1966, \$22,106,000 has been expended by the Federal Government on M.M.R.A. activities, practically all in New Brunswick and Nova Scotia. An analysis of this amount, based on the details of expenditure presented annually in the Public Accounts, shows that \$13,321,000 has been charged to construction of works. A further amount of \$560,000 was expended on the acquisition of equipment. The balance of \$8,225,000 involves administration, operation and maintenance costs, the largest individual item being \$4,673,000 for salaries and wages.

We believe that the provisions of the Act indicate that Parliament intended that the provinces assume responsibility for the operation and maintenance of the works without undue delay following their completion. Nevertheless in no case up to March 31, 1966 had a province been required to do so. This was despite the fact that in 1959 the Treasury Board expressed the view that as most of the smaller projects would be completed by 1961, it would be appropriate to recommend to the provinces that plans be made for them to assume responsibility for the operation and maintenance of the projects. In the current year arrangements have been made for New Brunswick and Nova Scotia to

assume financial responsibility for upkeep but only after a transfer period expiring March 31, 1970.

67. Loss occasioned by cancellation of grain storage commitment. The terms of a contract between two large grain companies provided for the purchase and shipment of 400,000 bushels of feed grain from Fort William to Halifax. Space at the Halifax elevators to accommodate this proposed shipment was confirmed by the National Harbours Board on August 12, 1964.

On October 1, 1964, two days before the grain was loaded on board a ship at Fort William, the National Harbours Board notified the agent of one of the contracting companies that the Halifax elevators were filled to capacity and that no storage space was available for the incoming shipment. By this date, the grain company was bound to its shipping contract and to the shipowner's schedule of contract dates. As a result, on October 3, 1964 the ship was loaded and dispatched with the knowledge that no storage facilities were then available at Halifax.

The ship was diverted to Quebec City where, following a ten-day wait, the grain was unloaded into an elevator. The grain was stored in this elevator from October 1964 until February 1965 when onward shipment was made by rail. In the meantime, negotiations were proceeding between the two companies and government representatives towards settlement of claims for extra demurrage and the excess of rail costs over the water costs for transportation of the grain from Quebec to its final destination.

Provision for payment of the claims was made in the 1964-65 Department of Forestry Vote 37 but settlements were not reached before the funds lapsed. In 1965-66, Department of Forestry Vote 11, "Payment in respect of extra costs resulting from unloading the S.S. Wheat King at Quebec while en route to deliver grain at Halifax", provided an amount of \$58,400 and was charged with \$43,978 in final settlement of the claims.

68. Forestry research grants in excess of amount fixed by Parliament. Vote 15 of the Department of Forestry provided for "Administration, Operation and Maintenance including grants as detailed in the Estimates". Included in the supporting Details was provision of \$62,900 for "Grants in Aid of Forestry Research". As grants amounting to \$66,390 were made, the item was over-expended by \$3,490.

This over-expenditure was accidental, resulting from a breakdown in the controls normally applied. Steps have been taken to avoid a recurrence.

A dollar vote in 1966-67 Supplementary Estimates (C) reads:

Vote 16c—To ratify and confirm the payment of grants in aid of forestry research in the amount of \$3,490 during the 1965-66 fiscal year.

69. Expenses of Canadian Council on Rural Development. Prior to an amendment in April 1966, section 6 of the Agricultural Rehabilitation and Development Act, 1960-61 c.30, read as follows:

The Minister may, for the purpose of carrying out the purposes and provisions of this Act, establish such advisory committees as he deems necessary and appoint the member

thereof, and the members of such committees are entitled to be paid reasonable travelling and living expenses while absent from their ordinary place of residence in the course of their duties.

Under this authority the Canadian Council on Rural Development was established late in 1965 and expenses of \$9,956 were incurred in respect of meetings and other activities of the Council. These expenses were charged to a "project" set up for the purpose under Department of Forestry Vote 35 which provided for "Payments in respect of projects and programs under the Agricultural Rehabilitation and Development Act, and payments to Provinces pursuant to agreements entered into under that Act". This was done despite the fact that it is Vote 25 of the Department which provided funds for the administration of the Act, and ordinarily an advisory service is regarded as an administrative function. Similarly, \$100,000 has been budgeted for the Council's expenses in 1966-67, with the same procedure being followed.

Included in the Council's expenses of \$9,956 was \$4,200 for honoraria to members at the rate of \$50 per day for each day spent in travelling to and from and attending Council meetings. As section 6 of the Act, quoted above, provided only for travelling and living expenses the honoraria were paid on an ex gratia basis. Although Parliament made provision for the payment of remuneration to Council members when the Act was amended in 1966, this authority was not made retroactive. In our opinion the payments prior to the amendment required legislative sanction, Executive authority being insufficient because an area of government already regulated by legislation was involved.

70. Failure to record revenues accruing to the Crown. The Department of Industry Vote 5 provides for financial assistance to sustain technological capability in Canadian industry by supporting selected defence development programs on terms and conditions approved by the Treasury Board.

The agreements with the companies being assisted include a variety of terms and conditions covering company contributions to the development programs, profit sharing and the disposition of the Crown's share of the profits derived from the sale of products developed under the programs.

In those cases where the agreements provide, with the approval of the Minister, for the Crown's share of the profits to be retained by the company for use on development projects, it is fundamental to the preservation of parliamentary control of expenditure that such profits be recorded by the Department as revenue and that equivalent amounts be charged to an appropriation for financial assistance to Canadian industry.

One of the companies reported that the Crown's share of its profits to June 30, 1965 was \$46,710 and in December 1965 the Minister approved the use of this amount by the company on development projects. Neither the revenue nor the expenditure was recorded by the Department.

In our opinion the effect of this action was to supplement the Vote by \$46,710 which should have been recorded as revenue in the Consolidated Revenue Fund.

71. *Living allowances to federally-appointed judges.* In previous Reports we have expressed the opinion that allowances of up to \$100 per day paid to judges called upon to act on matters outside their normal judicial duties are excessive as living allowances and could be regarded as including an element of remuneration, contrary to the provisions of the Judges Act, R.S., c.159.

This opinion is shared by the Public Accounts Committee which recommended in its Fourth Report 1963 and Fourth Report 1964 that the approval of Parliament should be obtained for the practice if it is continued (see Appendix 1, item 7).

The situation has not changed materially and in the year 15 federal appointments, involving 14 judges, were made at rates of allowances of \$50 to \$100 per day.

We understand that the Department of Labour for whom judges have acted frequently in labour disputes is now seeking to avoid using their services in departmental work as far as it is possible to do so. We also understand that the Minister of Justice recently wrote to all chief justices and provincial attorneys general informing them that it had come to his attention that judges were acting in labour arbitrations and conciliations at the request of private employers and trade associations. The Minister pointed out that a judge is required by the Judges Act to devote himself exclusively to his judicial duties and is prohibited from acting as a commissioner or arbitrator on any commission or inquiry without the consent of the Governor in Council unless appointed by the Governor in Council or Lieutenant-Governor in Council.

72. *Federal losses from bankruptcies.* In our 1965 Report (paragraph 69) reference was made to recommendations by a commission of inquiry, which had been appointed by the Province of Quebec to determine the effect of bankruptcies on the revenue of the Province, for changes in the Bankruptcy Act, R.S., c. 14, and in the administration of bankruptcy, including the establishment of a "permanent inquiry service" either under section 3(5) of the Bankruptcy Act which provides that

The Superintendent may engage such accountants or other persons as he may deem advisable to conduct an inspection or investigation...

or under some other legislative provision. We pointed out that no amount had yet been established to indicate the extent to which federal revenue had been lost as a result of bankruptcy irregularities.

No attempt has been made to ascertain the shortfall in federal revenue arising from fraudulent bankruptcies mainly because of the difficulty of determining all the bankruptcies in which fraud and dishonesty may have been involved. However, in the early part of 1966 a committee was formed under the chairmanship of the Superintendent of Bankruptcy to review representations that have been made from time to time suggesting amendments to the Bankruptcy Act, and to recommend amendments designed to improve federal legislation in bankruptcy matters.

The Superintendent of Bankruptcy has been authorized to increase his staff considerably in order to strengthen the administration of the Act and, particularly, to carry

out the additional duties placed on him by the amendments to the Bankruptcy Act which were assented to July 11, 1966 (1966-67, c. 32). The new duties are related primarily to the enforcement of the Act, including both the audit of trustees' records and the investigation of suspected irregularities.

73. Admiralty courts. Under the authority provided by the Admiralty Act, R.S., c.1, nine Admiralty courts were established in Canada to deal with matters coming within the jurisdiction of the Exchequer Court of Canada on its Admiralty side. The Act provides for the appointment of a registrar for each court. All of the registrars, except one, are provincial officers who are compensated for their work either in the form of an annual salary of \$300 or through the fees provided by the General Rules and Orders of the Court. Financial transactions of the courts relate mainly to deposits by litigants, interest on deposits, registrars' fees and payments under the authority of court orders.

An examination during the year of all of the Admiralty courts disclosed a number of weaknesses in administration, including inadequate records, intermingling of federal and provincial funds, retention of the interest earnings by some of the registrars, fees improperly paid to the provinces, etc. Our report to the Department of Justice pointed out the need for more careful definition of the financial arrangements for these courts and for the establishment of adequate financial records. These matters are now under study by the Accounting Advisory Service of the Comptroller of the Treasury.

74. Municipal winter works incentive program. Incentive payments by the Federal Government from the inception of the first winter works program have amounted to \$178 million.

Reference was made in last year's Report (paragraph 71) to this program under which the Federal Government, by agreement with all of the provinces and the Yukon and Northwest Territories, has undertaken to pay a percentage of direct labour costs incurred on site on accepted winter works projects undertaken by municipalities, Indian bands, and unorganized settlements.

The Report drew attention to a condition of the agreements which requires final claims for incentive payments by the Federal Government to be audited by the provincial auditor or an auditor designated by him, and to the inadequacy of the audit being performed, in compliance with this condition, by or on behalf of some of the provincial auditors.

We reported also that our test examinations indicated that the effectiveness of the program in providing benefits to those whom it was designed to assist was somewhat less than its potential and that there was need for a more specific spelling-out of the terms of the agreements to set straight some questionable practices which had developed. The following abuses were cited: regular or permanent employees of a municipality employed on projects without being replaced at their regular jobs by men drawn from the pool of unemployed; contractors' senior personnel, including the principals of the firms, employed on projects; a tendency to undertake 'makework' projects of little value;

some municipalities and unorganized settlements assessing each worker a percentage of his earnings; overtime worked under circumstances which did not give employment to more workers; workers frequently employed on projects without first having been referred by the National Employment Service; an instance where the wages paid to religious brothers who had worked on a project were claimed; and the wages shown on the claim at the rates charged to the municipality by the contractor and not at the rates actually paid to the employees.

Also drawn to attention were instances of fraudulent and irregular practices including payment of wages to employees for longer hours than were actually worked, the reporting of wages on claims at hourly rates which were more than were actually paid, the inclusion of fictitious employees on project payrolls and the inclusion on project payrolls of municipal employees who were engaged on other than winter works projects.

Our examinations in 1965-66 in respect of the 1964-65 program year indicated that verification of claims by or on behalf of the provincial auditors was being extended. However, one province continues to be reluctant to permit members of the Audit Office to examine the records of its municipalities and again no examinations were made. Examinations of provincial and municipal records and of reports of provincial auditors relating to claims for the 1964-65 program year showed a continuation of substantially the same questionable practices as were noted in the preceding year's examinations.

For the 1966-67 program year the terms and conditions which have been proposed to the premiers of the provinces and which are intended to form the basis of new agreements have been elaborated upon in order to impose greater restrictions than those of prior agreements. These terms and conditions incorporate changes designed to prevent any possible misunderstanding of the intent of the program and to curb the questionable practices referred to above. Among the new terms are: payments to regular and year-round employees of the municipalities may not be included as claimable costs incurred on winter works projects; a spelling-out of the types of labour eligible for employment including the stipulation, in connection with supervisory staff of contractors, that only labour performed in the immediate supervision of the direct labour on the project is eligible; "direct payroll costs" shall include only the actual, out-of-pocket outlays of municipalities for work performed on site and shall be reduced by any deductions made or rebates received from the wages of employees engaged on projects; the emergencies under which overtime work is acceptable shall be restricted to those circumstances where immediate action is required to save a situation not foreseen; and a clarification of the conditions under which an employee who has not been referred by the National Employment Service shall be acceptable.

75. Existence of annuitants. An examination of procedures relating to payments to annuitants by the Government Annuities Branch disclosed that, while periodic checks are made where the annuity is forwarded direct to a bank for deposit to the credit of an annuitant's account or is made payable to a committee, guardian or administrator, no attempt is made by the Annuities Branch to establish the existence

of an annuitant to whom payment is being made directly. Although the endorsement clause on annuity cheques is restrictive in that it specifies that the amount is payable only if the payee is alive on the date of issue of the cheque, prohibits payment to an executor, administrator or attorney-in-fact, and requires that the endorsement be that of the payee personally, our examination disclosed that the endorsement provisions were not always complied with. Moreover, no examination of endorsements was being made by the Branch. The procedures thus provide inadequate safeguards against the possibility that payments will continue to be made after annuitants are deceased and these payments appropriated by others not entitled to them.

Discussions were held with officers of the Annuities Branch in January 1966 during which they undertook to look into the methods that might be used in obtaining the necessary life certificates and advise us when their plans were complete. They have since advised that a decision has been made to obtain confirmation of the existence of some one-third of the annuitants to whom annuities are paid directly and that on the basis of the results obtained from this comprehensive test, they would then determine whether there is some practical value in this being made a continuing procedure.

76. Uneconomical mode of transportation. In last year's Report (paragraph 73(2)) we noted, with respect to travelling and moving expense claims of servicemen involving long distances, that the allowances paid under regulations amended effective March 1, 1963 were generally in excess of the allowances the servicemen would have received prior to the amendments. The object of the change had been to simplify the method of calculating reimbursement without increasing the expenditures. All-inclusive mileage rates were substituted for the previous allowances which had been the equivalent of hypothetical expenses calculated on the cost of the journeys by public transportation facilities.

We reported that a comprehensive evaluation of the present allowances was being undertaken by the Department. However, before this overall study was completed, the Treasury Board in November 1965 commenced the same general type of survey of the regulations covering travel on government business. Because the findings of the Treasury Board will have a bearing on service regulations, the study by the Department of National Defence has been set aside until such time as the Board announces its decisions.

77. Travel by private motor car on special leave. The regulations provide that when an officer or man proceeds to his home on special leave after a period of duty in an operational theatre, he may be reimbursed, at the rates prescribed, the cost of transportation, accommodation and meals for the portion of the journey actually made in Canada or between Canadian points by the most direct route to his home and return to his place of duty. Personnel who use their private motor cars are reimbursed on the basis of mileage allowances to cover the cost of accommodation, meals and transportation.

In our examination of travel claims we noted that on completion of their tour of duty in Cyprus members of an Army unit were returned from Nicosia to their headquarters in Esquimalt (Victoria, B.C.) by service aircraft. Stop-overs of the aircraft were

made en route at Canadian Forces Base Trenton for clearance through Customs and to permit the landing of service members proceeding to eastern points on special leave. Notwithstanding this opportunity to land and proceed on leave, fourteen members whose homes were in Ontario and the Maritimes continued their flight to Victoria and then proceeded on special leave by private motor car. Had the members proceeded on leave by rail from Trenton, some \$4,600 could have been saved. The Department's explanation for this apparently unnecessary travel is that the servicemen concerned wished to pick up their automobiles which had been left at Esquimalt when they proceeded overseas.

When servicemen are permitted to use their personally-owned automobiles, in lieu of public transportation facilities, for their own convenience on temporary duty trips, special leave, etc., they are allowed to claim reimbursement of their expenses on the basis of all-inclusive mileage rates which cover transportation, meals and lodgings. Accordingly no receipts or vouchers are required to support reimbursement and difficulties arise in determining whether the trips were made in the manner claimed. Cases have been observed where there was reason to believe that they were not (see paragraph 66 of our 1961 Report). We would suggest that the Department require that claims for mileage allowances at the all-inclusive rates be supported by a special certificate of an officer who has knowledge that the trip was actually undertaken as claimed. Such claims would then be more comparable to expense claims which are required to be supported by receipted vouchers.

78. *Special benefits to personnel released from Canadian Forces.* In recognition of the fact that the unexpected termination of a military career, as a consequence of planned reduction in establishments, could result in financial hardship, Order in Council P.C. 1964-684 of May 7, 1964 approved

An Order governing special benefits for officers and men released or denied re-engagement solely by reason of reductions in establishments.

These special benefits were payable to personnel released during a period of two years beginning May 7, 1964, or until a reduction of 10,000 in the strength of the Regular Forces as at April 1, 1964 was achieved. This Order was later revoked and replaced by Order in Council P.C. 1964-15/1239 of August 13, 1964 which included the same preamble. The new Order authorized the inclusion of medical releases in the category of persons who were entitled to the benefit.

Owing to the fact that the strength of combat forces had been reduced by attrition more than was anticipated, without the payment of special benefits, and that attrition had not taken place to the same extent in the logistic and administrative support areas where further reductions were necessary as the reorganization of the forces progressed, it was decided to extend the period during which special benefits could be paid beyond September 1, 1965 when the 10,000 reduction in the strength of the forces had been achieved and authority for the payment of special benefits thereby terminated. Accordingly, an amendment authorized by Order in Council P.C. 1966-4/106 of January 19, 1966 removed the condition concerning a reduction of 10,000 in the strength of the Regular Forces and terminated authority to pay special benefits for releases on medical grounds.

During the two-year period from May 7, 1964 to May 6, 1966, when the plan terminated, some 3,322 members of the forces received special benefits at an estimated cost of \$9.8 million. In addition to the special benefits, authority was obtained to

- (1) waive the present provision in the Canadian Forces Superannuation Act which provides for a 5% reduction per annum in annuities for servicemen who have less than 20 years service but more than 10 years service (maximum reduction 30%), and to grant payment of a full immediate annuity; and
- (2) pay, notwithstanding the provisions of the Queen's Regulations and Orders, an unreduced gratuity to officers serving for fixed periods of time (short service commissions) who are forced to retire early.

Although it would appear that the intention of the program was to pay benefits to personnel released or denied re-engagement solely by reason of reductions in establishment as evidenced by the introductory paragraph of the Order, 57% of those who received the benefit were released on medical grounds. These releases included two categories of personnel: (a) those whose employment was limited or adversely affected by a medical disability or condition which would not normally be sufficiently serious to require release on medical grounds, and (b) those whose medical condition was such as to require release under existing regulations and orders. In our view the payment of the special benefit to personnel in this latter category was not in harmony with the purpose of the program.

A test examination of the files of released personnel who received the special benefit disclosed the following questionable payments:

1. Five members of the Information Branch were paid the special benefit when they declined transfers to other branches within the same Service. Since alternative employment was offered, their release could hardly be considered compulsory.
2. In 25 cases servicemen who had reached compulsory retirement age while on terminal leave were paid special benefits totalling \$17,000 for the period from commencement of terminal leave to the date their compulsory retirement age was reached. Because the date of release was actually subsequent to the compulsory retirement age, it is difficult to understand how the release could be considered premature.
3. Although an amendment to the Order deleted the provision authorizing benefits for releases on medical grounds for personnel released after September 1, 1965, 20 instances were noted where servicemen were paid special benefits amounting to some \$66,000, even though their releases on medical grounds were approved after this date.
4. In 31 cases servicemen received special benefits amounting to \$106,000 although they had begun their terminal leave preceding release on medical grounds during periods of up to 6 months prior to the effective date of the authorizing Order in Council. No evidence was produced to support the view that the release of these men was "solely by reason of reductions in establishments" or that this was a consideration in their release.

79. *Payment of re-engagement bonuses to servicemen entitled to benefits for premature release.* In the course of implementing reductions in establishments in connection with the reorganization of the forces, personnel released or denied re-engagement were paid the special benefits referred to in the previous paragraph.

At about the same time difficulty was encountered in retaining skilled personnel and it was deemed expedient to introduce an incentive to encourage personnel to remain in

the forces. Accordingly, Order in Council P.C. 1966-1/335 of February 22, 1966 authorized amendments to the Queen's Regulations and Orders for the Canadian Forces to provide for a re-engagement bonus of \$200 for each year of the re-engagement period to personnel of the Regular Forces at first and subsequent re-engagements. The Regulation further provided that:

A man who, on the date this article takes effect (February 1, 1966), is serving on a re-engagement, is entitled to the benefits of this article for the unexpired period of his re-engagement as if that period had commenced on that date, and the provisions of this article shall apply accordingly. The bonus payable under this paragraph shall be prorated at one-twelfth of \$200 for each full month of a part year of the remaining period of the re-engagement.

Under this authority, approximately 463 personnel on strength on February 1, 1966 and either in receipt of or eligible for the special benefit for premature release, were paid re-engagement bonuses for that portion of the re-engagement from the effective date of the Regulation to the date of release.

The departmental view was that "to completely deny the payment of a bonus to men in these circumstances would perhaps be unfair since the decision to release them was a departmental decision, and in some cases, for medical reasons. The men presumably would have been willing to complete their engagements had they been allowed to do so".

In our opinion it is illogical to pay to the same serviceman benefits both for premature release and in respect of re-engagement.

80. *Payment of re-engagement bonuses.* As mentioned in paragraph 79, Order in Council P.C. 1966-1/335 of February 22, 1966 authorized the amending of the Queen's Regulations and Orders for the Canadian Forces to provide, effective February 1, 1966, for a re-engagement bonus of \$200 for each year of the re-engagement period to personnel of the Regular Forces at first and subsequent re-engagements, and an immediate cash bonus for all men who had already re-engaged covering the unexpired portion of the member's re-engagement period.

During the year approximately 64,000 personnel were paid bonuses aggregating \$22,728,000. It was intended that the incentive for re-engaging and the cash bonus to those who had already re-engaged would halt or reverse the trend of service personnel requesting release or not re-engaging, and at the same time would provide savings in reduced training costs. We are unable to determine how many were encouraged by the bonus to complete their present engagements and to re-engage although we understand it did not stem the loss of skilled personnel to the extent expected. Payment of the bonus is to be terminated on July 1, 1967.

81. *Pension awards effective at an early age.* In our 1965 Report (paragraph 84) reference was made to the number of servicemen being retired with immediate annuities at an early age, in some instances under 30, and we reported that 391 servicemen aged 40 and under were retired with immediate annuities aggregating \$472,000.

During the year, 752 in this category were released with annuities totalling approximately \$1,020,000 ranging in amounts from \$308 to \$3,863. The increase of 361 in the number of retirements was due largely to the planned reduction in establishments resulting from integration of the Armed Forces.

The Public Service Superannuation Act provides for deferred annuities payable at age 60 where persons retire prior to the specified minimum retirement age. As previously reported, the Department of National Defence had considered the advisability of introducing deferred pensions, under the provisions of the Canadian Forces Superannuation Act, similar to those available to civilian employees, but its review of the Act was deferred following the decision to integrate the forces. The Deputy Minister advised the Public Accounts Committee on June 9, 1966 that, while the studies are almost complete, it will take considerable time to examine them and to come to conclusions, after which decisions will be taken on what changes, if any, would be desirable in the pension arrangements (see Appendix 1, item 16).

82. *Breach of trust by member of staff of military attaché.* Order in Council P.C. 1965-5/2077 of November 24, 1965 authorized payment of up to \$5,000 of personal debts incurred by a non-commissioned officer attached to the staff of a military attaché. Investigation disclosed personal debts of at least \$4,671, a shortage of \$2,932 in the military attaché's imprest account during the period 1963-1965, and suspicion of trafficking in duty-free liquor and cigarettes. Following his recall to Canada, the officer was tried by his commanding officer, found guilty on two charges of conduct to the prejudice of good order and discipline and punished by reduction in rank with deprivation of two good conduct badges. He was compulsorily retired on December 20, 1965 at which time \$3,085 was recovered from his superannuation and pay account balances. The matter has been referred to the Department of Justice which is endeavouring to effect recovery of the balance of his indebtedness amounting to \$4,518. As a result of this occurrence all imprest accounts of military attachés have been withdrawn.

This case illustrates the importance of the internal audit program recommended for the Department of External Affairs (see paragraph 61) providing for test verification of imprest and all other funds kept by representatives of other departments stationed at an embassy.

83. *Use of departmental vehicles.* On November 25, 1954 the Secretary of the Treasury Board wrote to all departments expressing the Board's concern over the apparent increase in the non-official use of departmental vehicles and emphasizing that such use was strictly forbidden.

While it remains the general policy to forbid non-official use of vehicles, the Treasury Board has in special circumstances approved use for private purposes where, for example, hospitals, experimental farms, etc., are located in isolated areas and there is no alternative means of transportation. In these instances use has been confined to specific purposes such as collection of mail, essential shopping, and transportation of children to school or to obtain medical attention.

In commenting on the use of vehicles in the Department of National Defence, the Royal Commission on Government Organization noted an inconsistency between civil and military practices and recommended that "a review be made of armed forces policies and practices respecting the use of passenger vehicles to the end that there be consistency throughout the Public Service".

Departmental internal auditors have from time to time noted instances where the use of vehicles for recreation purposes appears to conflict with this general policy.

In Ottawa the Department operates 78 passenger vehicles of various types. The annual cost of operating these vehicles is not available but a test examination of their use revealed cases at variance with the general policy outlined above, e.g., some senior military and civilian officers are driven to and from their residences daily.

We are informed that a study has been under way since November 1964 with a view to eliminating conflicts between present practices and the policy laid down by the Treasury Board but no decision has been made. During the year we drew the attention of the Department to the fact that this particular study apparently did not include consideration of the use of passenger cars and drivers by senior military and civilian officers. This has since been the subject of a special study and we understand that the number of staff cars allocated for this purpose is to be severely reduced.

84. *Excessive costs of voice tape recorder.* In 1961 tenders were invited by the Department of Defence Production for the manufacture of three pre-production and forty-seven production models of a voice tape recorder. The lowest tender received was in the amount of \$72,587 for models which would have a substantial foreign content.

About a month after the original tenders had been opened, a company which had submitted a tender in the amount of \$105,672 advised the Department that it had misunderstood the specifications and having again reviewed them was willing to undertake the contract for \$73,260, which was \$32,412 less than its original tender and only \$673 more than the lowest tender price.

The Department considered the explanation given by the tenderer to be a reasonable one and, as the voice tape recorders to be produced by this tenderer would have a substantially higher Canadian content than those which would have been produced by the lowest tenderer, entered into a firm price contract on March 9, 1962.

Prior to this, the RCAF had evaluated the company's proposal and stated that technically it met or exceeded their requirements. Nevertheless on March 19, 1962, just ten days after the award of the contract, the RCAF on reviewing the company's voice tape recorder configuration advised the company that it was unacceptable in that it did not include a tape cartridge to permit easy removal and replacement of the tape. The company had intended to meet this requirement by providing for easy removal of the voice tape recorder from the aircraft. However, the RCAF insisted on the cartridge method of removal and, in order to avoid cancellation of its contract, the company agreed in April 1962 to make the necessary changes at no additional cost.

In October 1962, three months behind schedule, the pre-production models were presented for testing but there was an unexplained delay on the part of the aircraft manufacturer in installing these models in aircraft to permit operational testing. When the tests were finally made they indicated a need for modification and it was not until August 14, 1963 that the contractor was advised that the modified pre-production models were acceptable.

The Treasury Board had originally asked that the company be required to provide a performance bond but at the request of the Department this requirement was withdrawn on the understanding that there would be no progress payments and that payments under the contract would be made only after the equipment had been delivered and had passed all tests. However, when the company began production in October 1963 it requested progress payments to provide it with working capital. The Treasury Board then approved the making of progress payments but did not protect these by insisting that a performance bond be provided.

On April 24, 1964, about five months before the production models were expected to be delivered and after the company had been advanced \$42,000, it requested an additional \$97,000 from the Department because of extra design costs involved in providing for cartridge type removal and replacement of tape. This was the design change which the company had undertaken in April 1962 to make without any additional cost.

The Department considered cancellation of the contract or its assignment to another contractor. However, because of the time that would be required for another contractor either to complete the work in process or manufacture a completely new recorder, and the cost of a second contract together with termination costs, the Department decided it would continue with the original contract. It agreed to pay the company \$77,700 over the original contract price which had since been increased to \$78,166 because of another pre-production design change. This payment included \$10,067 "to allow the company to remain in business until completion of the work" and the Department agreed to accept 36 of the 47 recorders contracted for, the parts and sub-assemblies of the 11 units cancelled to be used as spares.

The files do not reveal why it took eight months from August 1963, the date the pre-production model was accepted, to April 1964 for the company or the Department to realize that the contract could not be completed for the agreed amount.

The Department of Defence Production has estimated that \$25,000 of the additional costs of \$77,700 are attributable to the RCAF requirement for a tape cartridge. On this basis the non-productive cost is \$52,700. Alternatively the non-productive cost could be considered to be \$80,000, the difference between the final cost of \$155,000 and the amount of \$75,000, the estimated cost of alternative equipment.

85. Hydrofoil development program. This program relates to the development of an anti-submarine-warfare hydrofoil craft of some 200 tons capable of operating at high

speeds in the open ocean. The concept of a hydrofoil craft, which it is considered would offer greatly increased effectiveness against submarines, was developed by the Naval Research Establishment after several years of experimentation with hydrofoils.

In March 1961 a contract was entered into for an engineering study and model test program to determine the feasibility of the Naval Research Establishment concept. The greater part of the work was completed by the end of March 1963 at a final cost of \$517,000. Further contracts for the purpose of investigating problems encountered during the design assessment study involved expenditure of an additional \$287,000.

In May 1963 a contract was awarded for the design and construction of a development prototype hydrofoil at an estimated cost of \$9.1 million excluding the cost of sea trials and spares. At this time delivery was scheduled for April 1966.

The relative contract report to the Deputy Minister of Defence Production stated:

At this time, we feel it would be impractical for the Department of Defence Production to evaluate the probable costs of this program in any detail, as not only have we insufficient information from the Company but there is a complete lack of historical cost data both in Canada and in the U.S.A. for similar hydrofoil programs. . . . This (contractor's cost) proposal while not providing any detailed breakdown of labour, material and bought-out items, indicated a considerable amount of effort had gone into its preparation and they have a good appreciation of the task involved. . . we suggest at this time and for preliminary funding only, their figure (of \$9.1 million) is realistic.

However, reference to the estimated cost in the Department's submission to the Treasury Board was confined to the following:

The Contractor's estimates for this program are recommended for funding purposes. The methods used though based on broad parameters are considered conservative and it is our considered opinion the program as now understood, but not including Contractor's and user's trials, will be accomplished within the \$9.1 million allocated.

When the contract was entered into the circumstances were, inter alia, as follows:

1. All proposals lacked reference to drawing and manufacturing specifications.
2. The Statement of Requirements for the hydrofoil had not been completed. This was done some seven months later in December 1963.
3. A materials study contract begun earlier had not been completed. Its results could be expected to require compromises.
4. A number of special items such as transmission and hydraulic components had to meet novel requirements which made it impossible to foresee all technical problems, or accurately predict costs.
5. From the stability standpoint, the foils were still creating problems.

As the project progressed the estimate of final cost was revised as follows:

Date of estimate	Hydrofoil	Estimate of final cost	
		Fighting equipment	Total
April 1963	\$ 9,100,000	\$	\$ 9,100,000
February 1964	11,326,000		11,326,000
March 1964	16,300,000		16,300,000
June 1964	16,300,000	4,355,000	20,655,000
November 1964	21,775,000	4,355,000	26,130,000
June 1965	28,759,000	7,441,000	36,200,000
April 1966	35,992,000	7,930,000	43,922,000

The detailed design of the ship and its sub-systems was virtually complete by late 1965 and an analysis had been made of all costs and cost estimates. The outcome was the cost estimate of \$43.9 million which included a provision of \$2 million for post-launch modifications.

In summary, the explanations given for the increased costs were as follows:

1. Inexperience of the contractor in this new field gave rise to underestimates of detailed design and production engineering requirements.
2. Underestimates of sub-contract costs by both the contractor and the Department of Defence Production.
3. Underestimates of the volume of manufacturing work, increased requirements due to engineering refinements, delays in production, increased shipping and material costs, etc.

To September 1966, \$31.5 million had been expended on the program.

86. Additional cost of acquiring intervalometers for the RCAF. This intervalometer is an electronic apparatus designed to accurately space submarine detecting devices dropped from aircraft. Because of extreme urgency, production was commenced before design and development of the equipment had been completed. A result was that the design, development and production took five and one-half years to complete with costs, originally established at \$106,169, increasing to \$234,838. The second contract is still subject to audit and, as of June 1966, surplus material that cost an estimated \$19,000 remained to be disposed of. It has not been possible to establish what portion of the additional cost of \$128,669 was non-productive.

The contracts may be summarized as follows:

Particulars of contract	Contract		Final cost	
	Date	Amount	Date	Amount
Design and development of four models of a prototype of a new intervalometer—firm price basis	Nov. 1959	\$ 10,169	April 1960	\$ 10,169
Procurement of 14 production models—firm price basis later changed to cost plus fixed fee basis	March 1960	23,522	Feb. 1963	77,219
Repair of defects revealed by tests				14,216
Procurement of 58 units complete with power generators—firm price basis later changed to cost plus fixed fee basis	May 1963	72,478	June 1965	133,234
		<u>\$ 106,169</u>		<u>\$ 234,838</u>

The first contract was entered into because new anti-submarine equipment received early in 1958 required the development of a new intervalometer. The four models of the prototype were delivered in April 1960 thus completing the contract.

In March 1960, before testing of the prototype had been completed, a second contract was entered into for 14 production models at a firm price of \$23,522 with

delivery to be completed in August 1960. In the meantime, flight testing of the prototype indicated several problems, a major one being that the electrical power supply system in the aircraft was not satisfactory for the intervalometer. The contract was then amended to include further development work with the basis of payment being changed from firm price to cost plus a fixed fee. Development of the alternative power supply held up production for about 18 months and it was not until February 1962 that the contractor submitted for testing the pre-production unit which included an alternative power supply. On completion of operational tests, but before the environmental tests required by the specifications were carried out, the contractor was instructed in May 1962 to resume work on the other 13 units. In January 1963 the first unit subjected to environmental tests failed but the last of the other 13 units was delivered in the following month and the contract was considered complete at a cost of \$77,219.

The same contractor was then paid \$14,216 under a repair and overhaul contract to correct defects in these units revealed by environmental tests.

Notwithstanding the failure in the environmental tests in January 1963, a contract was entered into on May 1, 1963 with another contractor who was the lowest tenderer for a further 58 units complete with power generator at a firm price of \$72,478. In the meantime, malfunctioning of some of the units was reported and in May and June 1963 there were other failures during environmental tests. As a consequence, production was stopped on June 19, 1963 for a period of five months. The contract was then amended to include further engineering, design and development, the basis of payment being changed from firm price to cost plus fixed fee. Deliveries under the contract were finally completed by June 1965 at a cost of \$133,234.

87. Costs of terminating contract for the procurement of target designation transmitters. In January 1961, two contracts were entered into with the same firm for the manufacture of target designation transmitters at a total cost of \$85,113. The first contract covered the prototype, drawings and 31 production models at firm prices and spares at estimated cost. Approval of the drawings and prototype by the Royal Canadian Navy was required before the contractor commenced manufacture of the 31 production models. The second contract was for the production tooling and test equipment at a firm lot price.

The drawings for this equipment had been obtained from the United States and it was known to all concerned that they were incomplete and could not be depended on for manufacturing purposes. However, they were considered to be sufficiently detailed to enable a manufacturing cost estimate to be made with the proviso that the contractor would probably require an engineering phase to familiarize himself with the equipment and to complete and check the drawings.

In order to assist the contractor to meet the delivery dates specified, the Royal Canadian Navy in April 1961 informed him that he could order the parts and material required for the production run when ordering the materials for the pre-production

model. However, the contract was not amended although the contracting authority—the Department of Defence Production—was informed of this action.

In February 1962 the prototype failed its shock and vibration tests and was returned to the contractor. In October 1962 the contractor, who had done little or no additional work after the return of the prototype, was informed that unless work was resumed on a satisfactory scale he would be considered in default and the contract terminated.

In November 1962 the contractor submitted an estimate of the cost of proposed additional design work which was examined and found acceptable provided it was performed within reasonable time limits. The contract was amended accordingly and a firm price of \$9,849 was agreed upon for the additional work. In September 1963, as the redesigned prototype still showed certain defects, it was decided to terminate the contract.

The claim in respect of the first contract was settled in August 1965 for \$54,891, which included inventories valued at \$37,437 of which \$12,018 was taken over by the Department of National Defence and \$25,419 was disposed of by Crown Assets Disposal Corporation in May 1965 for \$768. The contract for production tooling and test equipment was settled for the full firm price of \$8,988 and the material was sold by Crown Assets Disposal Corporation in December 1965 as scrap for \$8.

As the equipment is still required, a contract for one prototype and 28 production models has been placed with a firm in Northern Ireland and it is estimated the cost will be \$95,000.

88. Cost of terminating lease for communication facilities. When communication companies lease facilities to the Department of National Defence, and as a consequence it is necessary for them to invest substantial amounts of capital, they require the Department to guarantee the return of their investment within a certain period of time, usually ten years. This guarantee is in the form of a termination liability which is abated each year in direct proportion to the number of years the service has been leased.

In our 1965 Report (paragraph 82) we drew attention to the closing of four radar stations of the Pine Tree Line and the termination of contracts covering rental of on-base telecommunication and ancillary equipment. Final payments of the termination charges in 1965-66 amounted to \$161,900 of which Canada's share was \$73,000, bringing the total cost to Canada to \$327,500.

The closing of a number of radar stations and control centres forming part of the Continental Air Defence Integrated North communication system necessitated a major reconfiguration of the system in 1965-66 and resulted in certain land-lines and equipment not being required, which, along with technical improvements, made necessary the termination of a number of contracts with the communication companies and payment of termination costs of about \$3.5 million. Under the terms of cost-sharing agreements with the United States, the cost to Canada during the year approximated \$1,170,000.

89. Cost of terminating lease, Toronto, Ont. Following the Government's decision to reorganize the Reserve Forces, certain units were absorbed or disbanded and leases on a number of buildings were terminated, in some cases considerably in advance of their expiry date. One of these covered premises in Toronto which the Department of National Defence had leased for ten years from May 1, 1957 to April 30, 1967 at an annual rental of \$135,000. This building was vacated on March 31, 1965.

In January 1965 departmental officials met with the landlord to discuss termination of the lease but no agreement was reached. On February 26, 1965 the landlord advised the Department by letter that he was negotiating with a tenant to take over the whole of the premises and requested the right for ninety days from the date of his letter to terminate the lease upon thirty days notice. However, as negotiations were being conducted through the Department of Public Works for occupancy of the building by the RCMP, the Department did not agree to this request until April 9, 1965.

In addition to negotiating with the Department of Public Works in an effort to find a tenant, the Department held discussions with two realtors during which the cost of their services and difficulties that would be encountered in efforts to sublet were considered.

During further negotiations with the landlord in September 1965 several proposals were discussed, one of which was that the Department give the landlord authority to arrange a sublease of all or part of the property and to provide him with a cash incentive that he could pass on to any sublessee. He suggested that 50% of the rent due him for any space sublet would be sufficient for this purpose. However, as he might only be able to lease portions of the building, the Department felt that such an arrangement would be most cumbersome to administer since it would continue to be responsible for the cost of heating, utilities, maintenance and janitorial services and the rent on the unleased portions. The proposal was not accepted.

The Department finally agreed to recommend to the Treasury Board settlement for a lump sum payment of 75% of the amount due for the balance of the lease and the cost that the Department would be faced with in heating, utilities and caring for the property during the remainder of the lease. It was arranged that the lease would be terminated effective October 1, 1965, on payment of \$175,313 in lease termination charges based on 75% of the rental and estimated lighting, heating and other costs for the period October 1, 1965 to April 30, 1967. This payment together with the \$67,500 rent paid for the period April 1, 1965, to September 30, 1965, when the Department was attempting to find other lessees, brings to \$242,813 the amount for which no benefit was received.

It has come to our attention that shortly after the landlord received this settlement from the Department of National Defence in October 1965, he leased the same premises to the Board of Education of the City of Toronto for five years commencing January 1, 1966 at an annual rental of \$108,000. We understand that the building was taken over by the Board of Education in November 1965.

Since the premises are being used as an adult training centre, which qualifies for federal assistance under the Technical and Vocational Training Agreement between the

Federal Government and the Province of Ontario, the Federal Government, through the Department of Manpower and Immigration, will be reimbursing 75% of the centre's operating costs which will include the rent and the cost of extensive renovations.

90. *Additional construction costs, buildings and services, Camp Borden, Ont.* During the period from January to October 1961 a contractor was awarded six contracts by Defence Construction (1951) Limited for the construction of various buildings and services at Camp Borden. The authorized costs on completion in 1963 were \$3,781,210. However, the contractor submitted a claim in the amount of \$260,215 for additional work and materials supplied during construction of the various buildings and extra overhead costs due to prolongation of the contracts by carrying out work as directed by the Crown.

The claim was the subject of lengthy negotiations before settlement in January 1966 for \$98,959, bringing the total cost of the contracts to \$3,880,169. The various items included in the settlement are summarized as follows:

Additional work and associated delays resulting from a known water problem. The information on soil conditions which was provided in the tender documents was incomplete	\$ 35,523
Delays while changes in specifications were being considered	21,416
Additional work including \$4,000 for work during the winter season resulting from delay in providing the final design and \$4,000 for a finish on interior concrete walls that exceeded the specifications	17,765
Prolongation of the contract for one building which was complex and to some extent developmental. There were numerous changes and the procedures for handling these required information to pass through many hands, contributing to delays in completing the work	10,000
Additional direct costs resulting primarily from the decision of the supervisory and inspection personnel of Defence Construction (1951) Limited to delay removal of forms and supports beyond what was subsequently agreed to be the minimum time required. The specifications had suggested longer periods than appeared to be necessary in these cases for "curing" concrete	7,000
Cost of delays while lumber that failed to meet specifications was examined, cost of the examination and cost of replacing the 10% which was rejected	5,752
Increased costs resulting from a delay in completion of a power distribution contract held by another contractor	1,503
	<hr/>
	\$ 98,959
	<hr/>

It is estimated that one-half of the additional costs of \$98,959 are in the non-productive category.

91. *Additional costs arising from design deficiencies.* A contract for the construction of a standard Ground-Air Transmitter-Receiver (GATR) building with roads, fencing, etc., at RCAF Station Beavercreek, N.S., was awarded in November 1960. The building, which was of concrete block construction, was ready for occupancy by the end of June 1961, about a month after the scheduled completion date, but because of a moisture problem it was not taken over by the Department of National Defence until January 1962. The final cost including field engineering and design changes was \$202,248.

In June 1961 it became necessary to take remedial action because of condensation and mildew on the interior walls of the building. The contractor was required to remove and replace wall insulation, refinish walls, and perform additional exterior painting for which he was paid \$6,000 in 1962. In addition, a diesel generator set rusted because of excessive moisture in the building and required repairs costing \$2,864. In March 1962 the contractor claimed \$10,321 for additional costs arising from prolongation of the contract for a period of six months while he was working with the Crown to overcome the moisture problem. This claim was settled in June 1965 for \$4,564, bringing additional costs relating to the moisture problem to \$13,428.

This problem was not peculiar to Beaverbank alone but was experienced in GATR buildings built by other contractors about the same time, one being paid \$817 in 1962 for additional work on the building at Barrington, N.S. The interior wall finish in a number of these buildings in other locations has since been found to be in poor condition.

These facts and subsequent changes to the specifications suggest that the original design of the GATR buildings was inadequate in respect of moisture protection and has already involved the Crown in additional costs of \$14,245.

92. *Extra costs caused by material not up to specifications.* In October 1963 Defence Construction (1951) Limited entered into a contract for the reconstruction of parking aprons at RCAF Station Summerside, P.E.I., at an estimated cost of \$1,047,602, based mainly on firm unit prices and estimated quantities. Engineering and design changes including adjustments to the schedule of estimated quantities increased the cost by \$70,704 to \$1,118,306.

On October 6, 1964 the contractor submitted a claim in the amount of \$11,654 covering the cost, less a salvage allowance, of sand delivered at the construction site which had to be rejected because it was not up to specifications. The circumstances surrounding this claim were that supplies of satisfactory materials had to be brought from Nova Scotia. With a view to conserving shipping space and avoiding construction delays, the Crown arranged for an independent company to provide material testing services at the source of supply. In the latter part of May 1964 tests of the material stockpiled at Summerside indicated that some was unacceptable and investigation confirmed that certain loads accepted for shipment from Nova Scotia did not meet specifications.

The contract specified that the contractor would be responsible for providing materials conforming to the specifications. However, in November 1963, at the pre-job meeting, the possibility of unsuitable material was discussed and it was decided that Defence Construction (1951) Limited would set up a testing laboratory at the pit to help ensure that no unsuitable material was shipped. In doing this and then failing to notify the contractor that the first 3,300 tons of concrete sand did not meet specifications, the Crown was considered to have some measure of responsibility for the extra costs involved. Accordingly, the Crown agreed to pay the contractor 50% or \$5,827 of the

extra costs. Taking into consideration a subsequent recovery of \$1,942 of this amount from the material testing company, the additional cost was \$3,885.

93. Excessive payments to municipal school board. We stated in last year's Report (paragraph 78) that the Department of National Defence had been unsuccessful in its efforts to recover excessive payments made to a municipal school board under an agreement entered into in June 1957 to provide schooling for dependent children residing in married quarters at an RCAF station. A clause of the agreement stipulated that payments made by the Department on account of operating expenses, less provincial grants, would be adjusted at the end of each school year and the school board would refund any moneys overpaid.

We reported that although the Department had been billed each month since September 1956 for its share of the gross operating expenses, at no time since that date had an adjustment been made in accordance with the agreement. In consequence, refunds due the Department to July 1963 were estimated to be in excess of \$200,000. This estimate has now been adjusted to some \$176,000.

Having failed to induce the school board to refund the amount overpaid, the Department took steps in October 1963 to avoid current overpayments by reducing the payment of the monthly billings by 50%. Departmental records reveal that even on this basis the school board was overpaid \$6,000 for the school year 1963-64 and \$9,000 for 1964-65, bringing the total overpayment to \$191,000.

In February 1966 the school board sought additional capital assistance from the Department in connection with a further expansion of the school but a decision on this is being held in abeyance pending receipt from the school board of a satisfactory proposal for settlement of the outstanding debt.

94. Responsibility for the provision and operation of research vessels. For some years the Department of National Defence has been providing and operating naval auxiliary vessels engaged in scientific research for the Defence Research Board, Fisheries Research Board, Department of Mines and Technical Surveys, University of British Columbia and Dalhousie University. The capital and operating costs of these vessels are financed out of Defence Services votes and under recent policy these costs have been increased as a result of taking into consideration the requirements of the other users.

We asked the Department to consider the general question of the responsibility for the provision of vessels of this nature. They informed us that no adjustments would be made in the Estimates for 1966-67 but that it had been decided to provide for the cost of operating these vessels and the capital cost of additional ships in the Defence Research Board 1967-68 appropriations. We were also informed that the whole subject of interdepartmental and agency cost arrangements is to be reviewed when the 1967-68 estimates are being discussed.

It is important that moneys be provided to and costs accumulated in the department responsible for the activity and that arrangements be made to achieve proper distribution

of such costs to the user departments and agencies in order to reflect true costs and to derive maximum benefit from the new concepts of financial management.

95. *Breach of contract for snow removal, Fort Churchill, Man.* On November 8, 1963, on behalf of the Department of National Defence, the Department of Defence Production entered into a contract for the removal of snow at Fort Churchill on an "as and when required" basis. Although the Department of National Defence intended the contractor to provide snow removal services to supplement its own capability, its specifications were not clear on this point and the contract negotiated by the Department of Defence Production provided, *inter alia*, that the contractor would have exclusive right to provide the supplies and services specified during the term of the contract which was for the 1963-64 winter season and covered work performed to June 30, 1964. While it had been anticipated that the services of the contractor would be needed, the Department was able to perform its own snow removal work because it was not required to assist other government departments and agencies in the area with runway and road clearance work as had been the practice in previous winters.

The Department of National Defence did not realize an exclusive contract had been awarded and the Department of Defence Production did not seem to realize the significance of the particular clause which made the contract exclusive.

In May 1964 the contractor contended that pursuant to the terms of the contract, he had the exclusive right to perform the services specified and he subsequently submitted a claim for \$8,503. Following receipt of an opinion from the Department of Justice that the Crown was in breach of contract, the claim was settled for \$3,682 to cover the contractor's non-productive labour costs and the estimated profit he would have realized had he performed the work, as determined by treasury auditors.

Although the auditors did not qualify their report on the investigation of the claim it appears that in estimating the profit they did not include the cost of fuel, materials, repairs and maintenance, etc., because these costs were not included by the contractor in his claim and because of the difficulty of determining the amounts involved. Therefore the profit was overestimated to this extent.

96. *Fire loss of RCAF hangar, Moncton, N.B.* By an agreement dated May 18, 1961, the Moncton Flying Club was granted the right to use and occupy certain accommodation in a hangar at No. 5 Supply Depot, Moncton.

On numerous occasions infractions of the RCAF fire regulations were brought to the attention of Club officials and in March 1964 the Deputy Minister wrote a letter to the Club advising them that the unsatisfactory conditions with respect to the fire regulations would not be tolerated and that any future reports on hazardous fire conditions due to its operations would result in the termination of the agreement. On July 22, 1964 and again on May 5, 1965 letters were written to the manager of the Club by the Commanding Officer No. 5 Supply Depot drawing attention to serious infractions of the fire regulations and threatening eviction if RCAF orders were not adhered to. These letters were followed

up by station inspections which showed that some improvements had been made and corrective measures taken. However, constant 'policing' was required for these measures to be lasting and effective.

In June 1965 the hangar was destroyed by a fire which a Board of Inquiry concluded was caused by a cooking accident involving a member of the Club quartered on the premises. The loss, including stores and equipment, was estimated at \$3.5 million.

The Department of National Defence no longer permits joint occupancy of this kind with civilian organizations.

97. Unemployment Assistance. The Unemployment Assistance Act, 1956, c. 26, provides for payment by the Federal Government to the provincial and territorial governments of 50% of the costs of providing assistance to persons unemployed and in need. Our Reports in previous years have made reference to difficulties in the administration of the Act arising in part from inadequate definitions of shareable costs, ambiguities in the text of the Act and the relationship between this program and other programs of social assistance. We recommended that consideration be given to the overall co-ordination of all programs involving assistance to individuals to avoid overlapping and duplication and to achieve greater equity in the treatment of individuals as well as to reduce the cost of administration. The Public Accounts Committee in its Fourth Report 1963 concurred in our observations (see Appendix 1, item 4).

Many of the matters pertaining to the administration of the Unemployment Assistance Act that were criticized in previous years' Reports have been corrected by the Department of National Health and Welfare. However, the ambiguities contained in the text of the Unemployment Assistance Act and the overlapping and duplication in the various welfare Acts still gave rise to difficulties in the administration of the Act throughout the year.

Our past Reports have criticized such matters as overpayments, supplemental allowances, accumulation of comforts allowances, determination of need, overlapping of assistance, fully employed recipients of assistance and the need for strengthening administrative control.

In 1966 Parliament enacted the Canada Assistance Plan, 1966-67, c. 45, which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. At the present time regulations under the Plan are being prepared and agreements with the provinces are under negotiation. It is anticipated that these agreements will in time replace existing agreements with the provinces with respect to sharing costs of unemployment assistance and such categorical programs as old age assistance and blind and disabled persons allowances. The Plan also provides for Federal Government contributions to provincial programs of mothers' allowances, which previously had been excluded from federal aid. The new Plan should provide the overall co-ordination of assistance programs which we have recommended in previous

Reports. However, until the regulations under the Plan are established and agreements entered into with the provinces, it is not possible to fully assess the adequacy of the new comprehensive approach to social assistance in overcoming the administrative weaknesses referred to in previous Reports.

98. Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act. In previous Reports doubt has been expressed as to whether the terms of the agreements with the various provinces under the Hospital Insurance and Diagnostic Services Act, 1957, c. 28, relating to payments to federal hospitals, were being observed in all cases. Additionally, it was noted that it was difficult to appraise the adequacy of settlements by the provinces as: accounting in federal hospitals generally did not conform to the Canadian Hospital Accounting Manual which provides a basic accounting system for hospitals; accounting and medical records in some Indian hospitals were inadequate for preparation of the necessary financial returns required by the agreements with the provinces; and it was not always possible to determine rates by reference to comparable non-federal hospitals because of the specialized nature of many federal institutions. We recommended that steps be taken to bring federal hospital accounting in line with requirements where necessary and that revisions to the agreements should be made to the end that all the terms may be fully complied with.

Our examination during the year disclosed that the terms of the agreements under the Act relating to payments to federal hospitals had not been changed. However, we understand that revisions are under consideration by federal and provincial officials. Some progress has been made in the introduction into federal hospitals of an accounting system based on the Canadian Hospital Accounting Manual. Ten of the sixteen Indian hospitals of the Department of National Health and Welfare now use the Manual and the Department of Veterans Affairs has introduced it at one location and proposes to extend its use to its other ten hospitals.

99. Overpayment of a Health Grant. The Province of Newfoundland overclaimed \$50,939 under a General Public Health Grant project for the maintenance of an ambulance service on the south coast of the Province, as the result of failure to reflect in its claims over a period of eleven years the amounts recovered from the crews of the ambulance boats for board and lodgings. Although the Province had an obligation, under the General Health Grants and Hospital Construction Grants Rules, to refund the amount, it did not do this but asked the Department of National Health and Welfare to consider the overpayment as a federal grant towards the cost of supplementing the service with emergency air ambulance service, for which the Province had spent approximately \$425,000 in a ten-year period without seeking assistance.

In May 1965 the Department was informed that the Treasury Board had approved the write-off of the amount subject to two conditions:

- (1) the Province will undertake not to claim funds under the General Public Health Grants for the service instituted in 1955, namely the Air Ambulance Service along the south coast of the Island;

- (2) the normal write-off procedure in this case will be followed, namely the amount to be written off will be submitted for consideration at the time of final Supplementary Estimates, 1965-66.

The normal write-off procedure was not followed. Instead a cheque for \$50,939 was drawn payable to the Receiver General, \$21,028 being charged to the General Public Health Grant and the balance spread over five other specific grants. The cheque was then deposited to the credit of the Receiver General as a repayment of the amount overclaimed by the Province.

The action taken appears to have been designed more to eliminate an overpayment than to meet the aim of the General Health Grants, as set out in the Estimates, of assisting the provinces in extending and improving health services. Furthermore, in our opinion, the practice of issuing and handling Receiver General cheques in this manner constitutes a weakness in internal financial control.

100. *Additional cost due to postponement of construction project, Edmonton, Alta.* In September 1964 the Department of Public Works awarded a contract at a price of \$6,788,000 for the construction of a new building at the Charles Camshell Hospital for the Department of National Health and Welfare. The building was still under construction at March 31, 1966, to which date costs of \$5,044,000 had been incurred.

In 1960 architects had been engaged by the Department of Public Works to prepare plans and specifications for, and to supervise construction of, the new building. In December 1962, however, the Department of National Health and Welfare requested that design work on the project be discontinued in order to conserve funds and permit consideration of the recommendation of the Royal Commission on Government Organization concerning the operation of hospitals. Since at that time it was not possible to determine when the project might be proceeded with, the consultants were paid \$195,000 for work performed prior to the stop work order.

After the project was reactivated in January 1964, with the consultants then resuming their engagement, they presented a claim for additional costs beyond their fee entitlement for the project. These were attributed in part to: the necessity of reviewing the design requirements with the hospital staff in order that any changes in hospital techniques or requirements could be provided for; changes in both the hospital staff and the consultants' staff, in the intervening period, requiring time for reorientation; and changes in electrical codes and regulations in 1963 which required revisions in the drawings and specifications.

During the year the consultants' claim for additional costs stemming from the postponement of the project was recognized to the extent of \$34,870.

101. *The Canada Pension Plan booklet.* On May 12, 1965 the Treasury Board approved a nation-wide educational program, at a cost not to exceed \$2.2 million, for the purpose of acquainting the Canadian public with its obligations under the Canada Pension Plan and the benefits to which persons are entitled thereunder.

On August 31, 1965 the Department of Public Printing and Stationery entered into contracts with two printing firms for the production of 3,825,000 copies of the Canada Pension Plan booklet at a total cost of \$494,139. Although the amounts of the contracts exceeded the limits specified by the Governor in Council under section 39 of the Financial Administration Act and the contracts therefore required the prior approval of the Treasury Board, no such prior approval was obtained.

The lowest tender received by the Department of Public Printing and Stationery was \$461,317 or \$32,822 lower than the combined contract amounts. It was rejected because delivery could not be made before 110 days. The second lowest tender was \$477,000 with delivery in 32 days. This tenderer was given an order for one-half the quantity for \$236,000 to be delivered in 25 working days, and a contract for the remaining half was given to another contractor at a price of \$258,139, later increased by \$7,781 to compensate for extra costs incurred in expediting delivery of 600,000 booklets, with delivery in 20 working days. In actual fact this contractor had produced and delivered 345,000 copies of the booklet prior to August 31, the date of the order.

It will be noted from the foregoing that \$24,920 (and possibly more as the contractor accepted half the order for less than half the tender price) could have been saved had the booklets been ordered from the second lowest bidder with an extension of the delivery date of only seven days.

The Treasury Board ultimately approved the two contracts on November 29, 1965. The submission which was dated November 15, 1965 made no reference to the fact that the contracts had already been entered into and deliveries completed eight weeks previously.

102. *Ex gratia* payment to an employee. An employee of the Department of National Health and Welfare in London, England, was occupying leased living accommodation under conditions which proved to be unsatisfactory. He sought legal advice, and, on the strength of this advice, with the concurrence of his superiors, invoked a special clause in the lease which permitted termination in the event that he was transferred out of London, although no actual transfer was contemplated. His landlord became aware of the fact that he had not been transferred and began court proceedings claiming damages for breach of the lease. The case was withdrawn when the employee claimed diplomatic immunity. Subsequently, British law on diplomatic immunity was changed and the landlord again entered suit. The county court dismissed the case on the basis of the employee's diplomatic immunity but the decision was over-ruled by the appeal court. Rather than have the case re-tried on its merits, which might have brought to light the stratagem used to terminate the lease and the retreat behind the shelter of diplomatic immunity, the employee was instructed by his superiors to arrange settlement out of court. He was reimbursed the full amount of the settlement, \$1,314, on an *ex gratia* basis. A further claim may be received in respect of the landlord's costs.

In addition to the *ex gratia* payment, the Department of National Health and Welfare reimbursed the employee for his personal legal expenses in the amount of \$945. This reimbursement was not authorized by the Order in Council which approved of the

gratia payment and the payment of an employee's personal obligation, particularly without Executive approval, is open to question.

103. *Living allowances to members of the National Research Council.* Order in Council P.C. 1965-26/1091 of June 18, 1965 authorized payment of a per diem allowance of \$75 to members of the National Research Council and of the Medical Research Council to cover all expenses other than transportation expenses incurred in connection with their work. This represented an increase of \$30 over the \$45 per diem allowance which had been in effect for some years.

Section 12 of the National Research Council Act, R.S., c. 239, as amended by 1966-67, c. 26, provides that:

12. (1) No member of the Council, with the exception of the President, the Vice-President (Administration) and the Vice-Presidents (Scientific) shall receive any payment or emolument for his services, but each member shall receive such travelling and other expenses in connection with the work of the Council as may be approved by the Governor in Council.

(2) Notwithstanding subsection (1), a member of the Council other than the President or a Vice-President may, for any period during which he performs with the approval of the Council any duties on behalf of the Council in addition to his ordinary duties as a member thereof, be paid such remuneration as may be authorized by the Council.

The officers of the Council are of the opinion that a per diem rate of \$75 does not include any element of remuneration. However, since the Public Accounts Committee has expressed the opinion that a per diem rate of \$60 paid to a judge could be regarded as including an element of remuneration (see Appendix 1, item 7), it appears that a per diem rate of \$75 for similar expenses likewise contains an element of remuneration, contrary to section 12 of the National Research Council Act.

104. *Questionable expenditure on public relations project.* In January 1966 the Treasury Board approved of an exhibit in the Skylon Observatory, Niagara Falls, Ont., depicting the scientific activity of the National Research Council. The cost of the exhibit was estimated at \$175,000.

The Board advised the Council that approval was being given only because arrangements for the display were already well under way. It questioned "the advisability of the National Research Council making an expenditure of this size for a public relations project of such general character, and of apparently minimal direct value in the promotion of the National Research Council's relationship to industry and the scientific community."

The Council arranged for the Canadian Government Exhibition Commission to construct and arrange the exhibit and costs amounting to \$119,000 were charged to a National Research Council appropriation. A further \$54,000 has been expended up to October 31, 1966 and the final cost has not yet been established.

105. *Departmental practices which lack statutory sanction.* In last year's Report (paragraph 90) reference was made to seven practices of the Customs and Excise Division

of the Department of National Revenue which lacked legislative sanction. Three had since been approved by amendments to the Customs Act (1965, c. 16).

A subsequent amendment to the Excise Tax Act (1966-67, c. 40) gave sanction to the practice of refunding taxes based on estimated taxable values subject to regulations prescribed by the Governor in Council, but no action was taken with respect to the refunding of customs duties on an estimated basis.

The three other practices which continue to lack statutory authority and which were carried on throughout the year relate to:

- (a) sales of goods unclaimed at Customs;
- (b) determination of "sale price" for sales tax purposes; and
- (c) refund of duty paid on goods diverted to use other than that for which they were imported.

The Public Accounts Committee in its Eighth Report 1964 recommended that the first two of these practices should receive statutory sanction and similarly in its Fifth Report 1966 the Committee supported the Audit Office view that the other item should receive parliamentary sanction if the practice is to continue (see Appendix 1, item 27).

The Committee went on to state in its Fifth Report 1966 that

a government department should not initiate or take any action that is not authorized by Parliament even though it contemplates that Parliament may eventually take action to provide that authority. It (the Committee) considers that the actions of government departments must be limited at all times to the legislative authority existing at the time the action is taken.

106. Concessions made to motor vehicle manufacturers. For many years prior to the agreement, dated January 16, 1965, between Canada and the United States of America concerning automotive products, steps had been taken by the Canadian Government to promote greater production in the automotive field.

Pursuant to the British Commonwealth Content Regulations under the Customs Tariff, formulated in 1936, manufacturers of motor vehicles enjoy comparatively low import duties if the Canadian and other British Commonwealth content of the production is not less than certain established percentages.

Concessions made to the industry have taken the form of permitting imports free of duty subject to certain restrictive conditions but the fulfilment of these conditions cannot usually be verified until some later date. Entries covering these imports show the declared value of the goods being imported but generally they are not complete by insertion of the tariff rate or computation of the duty which would be payable should the restrictive conditions not be met. Furthermore, although the entries represent potential revenue to the Crown, the Department of National Revenue does not require that they be sent from the various customs ports to a central location to be suitably recorded. Accordingly no record is available giving the amount of customs duty involved or even the total value of the imports for which the importer must account. In addition

the Department does not normally receive adequate information on which to assess the importer's progress in meeting the restrictive conditions. Thus, in circumstances where the restrictive conditions may not be met, the Department is unable to take action to protect the revenue before further indebtedness builds up. Under the Motor Vehicle Tariff Order, 1965 only annual statements are called for and some of these have not yet been received for the year ended July 31, 1965.

The Department makes an annual verification of the importer's records. If the restrictive conditions have not been met the amount owing by the importer must then be determined by amending some or all of the applicable import entries for the period under review. There is usually considerable delay before this is done because verification is not normally attempted before statements are received from the manufacturers and there is insufficient pressure on the manufacturers to submit these promptly. It is for this reason that estimated amounts are used in the specific cases referred to below.

Comments on certain programs—

- (1) Files relating to the British Commonwealth Content Regulations which were examined during the year revealed that one vehicle manufacturer had failed to meet the terms of the specific British Commonwealth production requirements for the 1962 and 1963 models. Another manufacturer failed with respect to the 1964 models. Because these manufacturers had been permitted to import certain parts free of duty, their failure to meet production requirements resulted in their being liable to substantial additional customs duties under the applicable Customs Tariff items. However, the amounts of these additional duties were not calculated precisely by the Department and no demands were made on the manufacturers for payment. Under section 22 of the Financial Administration Act the Governor in Council later remitted 94% of the duties in the case of the 1962 model year, 84% in the case of the 1963 model year, and 100% in the case of the 1964 model year. The amount so remitted was \$2.2 million. Of this, \$755,600 represents the amount remitted, with respect to the 1964 model year, to one manufacturer who ceased production early in 1966.
- (2) Order in Council P.C. 1963-1/1544 of October 22, 1963 remits, under section 22 of the Financial Administration Act, duties on motor vehicles, and parts imported for use as original equipment, to the extent that Canadian content credit was earned by greater exports in two designated periods, November 1, 1963 to October 31, 1964 and November 1, 1964 to January 17, 1965 over the base period November 1, 1961 to October 31, 1962. These conditional remissions, at times, resulted in deferment of payment of duties, a practice which we reported to the House of Commons as being contrary to sections 22(1) and 79 of the Customs Act (see 1964 Report). The Customs Act was subsequently amended to permit free entry of goods, subject to regulations by the Governor in Council (1965, c.16). Files relating to this Order which were examined during the year indicated that four manufacturers were indebted to the Crown at March 31, 1966 as a result of excessive importations in one or both of the designated periods. The automobile manufacturer, referred to above, who had ceased production early in 1966 was indebted to the Crown in an estimated amount of \$470,000 due in part to imports in the second period of vehicles not normally handled by him. Of this amount \$171,000 owing with respect to the second period, November 1, 1964 to January 17, 1965, was paid on June 28, 1966, and the \$299,000 owing with respect to the first period, November 1, 1963 to October 31, 1964, was paid on November 23, 1966.

- (3) The Motor Vehicle Tariff Order, 1965 was approved by Order in Council P.C. 1965-99 of January 16, 1965. This Order permits the duty-free import of completed automobiles, buses and specified commercial vehicles when imported by a manufacturer of the same types of vehicles and the duty-free import of most parts imported for use as original equipment in vehicles to be produced in Canada. The Order establishes a base period of August 1, 1963 to July 31, 1964. To earn entitlement to free importation of vehicles and parts, a manufacturer must obtain in future similar yearly periods, a total Canadian value in production costs equal to or greater than that obtained in the base period, and a dollar sales ratio of Canadian-produced vehicles to total sales of vehicles for consumption in Canada which is equal to or greater than the ratio in the base period but not less than 75%. It should be noted that in this Order there is a requirement for only a nominal increase in the Canadian value in manufacturing costs in any year, but if a manufacturer fails to maintain the total Canadian value of his manufacturing costs or the sales ratio of Canadian-produced vehicles, he loses all entitlement to duty-free import for that year. In other words, a minor cut-back in Canadian production or an increase in sales in Canada of foreign-built automobiles by the manufacturer could result in a substantial amount of duty being payable by him at the year-end. Our examination of the files revealed that an estimated \$7.1 million was owing to the Crown by vehicle manufacturers at March 31, 1966 because of failure to meet the required conditions. Included in this amount is an estimated \$2.4 million owing by the manufacturer referred to previously as having had \$755,600 remitted by the Governor in Council, who owed \$470,000 under Order in Council P.C. 1963-1/1544 of October 22, 1963 and who had ceased production early in 1966.

This manufacturer failed in the period ending July 31, 1965 to meet the requirement of the Motor Vehicle Tariff Order, 1965 that his sales ratio of Canadian-produced vehicles to his total sales of vehicles for consumption in Canada be maintained. This was partly due to his importation of foreign-built automobiles of another manufacturer. As a consequence, this manufacturer is indebted to the Crown, under this Order, for customs duties estimated by the Department at \$2.4 million. No demand for payment of these customs duties has been sent to the manufacturer by the Department despite the fact that he ceased production of motor vehicles on March 17, 1966.

This manufacturer did increase the Canadian value of his production costs and substantially increased his dollar sales ratio of Canadian-produced vehicles to his total sales of vehicles for consumption in Canada for the next period ended July 31, 1966. However, the Order does not provide for a deficit in one period to be offset against surplus in a preceding or following period.

The remaining \$4.7 million recorded as owing under this Order is due from two other manufacturers and includes \$3 million owing by the manufacturer who had failed under the British Commonwealth requirements for his 1962 and 1963 model year. It should be pointed out, however, that the records of all manufacturers have not yet been checked insofar as production periods prior to March 31, 1966 are concerned and there may be additional amounts established as owing by other manufacturers when this work is completed.

In the past, the concept that duties and taxes be paid at the time of importation with penalties provided if payment of these duties and taxes was deferred, has been inherent in the Customs Act and Customs Tariff. This concept has been changed under the terms of the several motor vehicle tariff concessions with the result that from time to time substantial amounts, as referred to above, are owing by certain importers. To this extent the Crown is participating in the financing of automobile production.

Under the earlier remission orders a maximum security deposit of \$100,000 was required of manufacturers. This amount was nominal in relation to amounts sometimes established as owing because of failure to meet the required conditions, but the Motor Vehicle Tariff Order, 1965 requires no deposit whatever.

In our opinion, the procedures followed by the Department of National Revenue, Customs and Excise Division, in administering the concessions granted to motor vehicle manufacturers under the various Orders are not adequate to protect the revenues properly accruing to the Crown in the circumstances where the terms of these Orders are not met. It is essential that the Department take steps to strengthen its administration of these Orders to ensure that the importers concerned do not benefit from concessions beyond those set out in the Orders and that revenues due to the Crown are promptly collected.

107. *Remissions granted by the Governor in Council under section 22 of the Financial Administration Act.* Section 22(1) of the Financial Administration Act provides that:

The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

and subsection (8) requires that:

A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

In accordance with this requirement, listings of remissions of one thousand dollars or more appear each year in Volume II of the Public Accounts. The majority of these remissions pertain to customs duties, excise duties and excise taxes administered by the Customs and Excise Division of the Department of National Revenue. The totals of the remissions with respect to this Division for which amounts appear in the Public Accounts in each of the past three years are as follows:

1964	\$ 12,518,000
1965	40,520,000
1966	34,826,000

In addition to the remissions for which amounts are shown, a number are granted where the amounts involved are not available or cannot readily be determined. In such cases a narrative description of the remission is included in the Public Accounts.

The largest group of remissions, in terms of numbers, involves goods or equipment imported into Canada on a temporary basis. These remissions amounted to \$19.5 million in 1965-66. In such cases it is the policy of the Governor in Council to remit either the entire amount of the duty, as in the case of certain railway equipment, or that portion of the duty in excess of a pro-rated amount assessed for each month the imported article remains in Canada. This policy is being followed consistently and has the same effect as if statutory provision were made for importation on a duty-free basis or on the basis of a pro-rated amount being assessed for each month the imported article remains

in Canada. We suggest that consideration be given to suitable amendments to the Customs Act, R.S., c. 58, so that such importations may be documented more expeditiously, thereby eliminating routine referrals to the Governor in Council.

Reference is made in paragraph 106 of this Report to certain remissions granted to manufacturers of automotive equipment in Canada.

Two remissions granted during the year have not been included in the 1965-66 Public Accounts. The particulars are as follows:

- (1) Order in Council P.C. 1965-35/1044 of June 10, 1965 remitted the customs duty and excise taxes with respect to a number of claimants whose names are listed in the Order in Council. One of the items listed is a remission of \$103,888 covering advertising matter and souvenirs for which the claimant is shown as "Various parties." This amount has not been included in the Public Accounts because the Department is of the opinion that none of the "Various parties" benefited from a remission of \$1,000 or more. The Department did not compile a list of these persons, the amount being determined from an adding machine tape of amounts taken from the relative entries. The explanation of this remission as given by the Department is as follows:

As an encouragement to organizations in the United States and other countries to make use of Canadian cities and holiday centres for their conventions and meetings, the organizations have been allowed to import free of duty and taxes advertising matter and souvenirs for distribution to persons attending these conventions and meetings. Free entry has been permitted subject to approval by the Governor in Council.

It is the opinion of the Audit Office that the Department lacks authority to permit free entry of goods on the understanding that a remission by the Governor in Council will be forthcoming. For all practical purposes, the Department was not in a position to collect the duties and taxes concerned in the event that the Governor in Council had not agreed to grant the remission. In our opinion, if the Department considers it in the public interest that such remissions be granted, it is required to seek and obtain the remission before allowing free entry of the goods.

- (2) The second remission which does not appear in the listing is a remission of sales tax of "approximately \$500,000" paid by joint contractors on plant and equipment purchased for execution of a contract entered into by them. The contract had been entered into prior to June 14, 1963 the date on which certain plant and equipment, formerly exempt, had been made subject to sales tax. The contractors sought relief from payment of the tax pointing out to the Department that the contract had been entered into on the assumption that the required plant and equipment would not be subject to sales tax when purchased. Subsequently, the Governor in Council by Order in Council P.C. 1966-17/246 of February 10, 1966 remitted sales tax of \$500,695 which had been paid by the contractors on plant and equipment purchased by them prior to November 1965. The reason this remission does not appear in the Public Accounts for 1965-66 is because the refund of \$500,695 was not made until September 1966. The remission is to appear in the Public Accounts for 1966-67.

In our view the remission took place on the date of the Order in Council, February 10, 1966 and should have been reported as of that date regardless of the time which elapsed before the refund was made.

There are indications in the files that further remissions of even larger amount will be sought with respect to plant and equipment acquired or to be acquired by these contractors subsequent to November 1965.

In addition to these two remissions there are several continuing remissions, for which the amounts involved are not available or cannot readily be determined, of which a narrative description has not been included in the Public Accounts because no person benefited therefrom during the year. In our opinion, such remissions should continue to be reported as long as they remain in effect regardless of the benefit derived from them in any year.

108. *Failure of provincially-owned instrumentalities to pay sales tax.* Prior to March 30, 1966 natural gas used in internal combustion engines was subject to sales tax.

Normally sales tax on natural gas would be payable by the producer of the gas. However, because the greater part of gas purchased by provincial power corporations was for a purpose which made it tax-exempt (i.e., heating) the Department of National Revenue permitted these instrumentalities to pay directly to the Department tax on gas used under taxable conditions (i.e., internal combustion engines). This relieved these instrumentalities of the necessity of paying large amounts of tax to their suppliers of natural gas and then claiming refunds for the greater portion of the tax so paid.

In 1963, the Saskatchewan Power Corporation was retroactively assessed sales tax on natural gas used in internal combustion engines and gas turbines in its power plants since January 1, 1958. Natural gas had actually been used at the plants since December 1955.

Although the Corporation had been paying to the Department tax on gas consumed in internal combustion engines used on gas transmission lines, it refused payments of tax on gas used in the production of electricity. The unpaid assessments against the Corporation together with penalties to June 30, 1966 amount to \$262,194.

A similar arrangement, for payment of tax direct to the Department of National Revenue, was in effect with the British Columbia Hydro and Power Authority and that instrumentality paid the tax up to July 31, 1964. With effect from August 1, 1964, the Authority refused to pay the sales tax on the grounds that it is not the manufacturer or producer of the natural gas.

At the date of this Report the amount owing by the British Columbia Hydro and Power Authority, estimated to be \$112,000, had not been fully assessed by the Department, no assessment had been made for gas used for the production of electricity by the Saskatchewan Power Corporation during the period December 1955 to December 31, 1957 and no arrangements had been made for settlement of amounts recorded as owing by the two provincial power corporations.

109. *Possible amalgamation of certain inland customs ports.* In the larger centres of population in Canada a great many people live or do business at distances of ten miles or more from the local customs port. In these centres traffic conditions are usually such that in terms of time required to reach the local customs port, it is much less accessible than is a customs port in one of the smaller centres which may be reached

from surrounding towns by provincial highways. This gives rise to the question of the necessity for inland ports in centres which are in reasonably close proximity to each other.

The following is a list of fifteen ports which cost a total of \$372,800 to operate in 1965-66:

Port	Annual operating cost	Larger adjacent port
Acton, Ont.	\$ 8,000	Guelph, Ont.
Bowmanville, Ont.	10,700	Oshawa, Ont.
Galt, Ont.	66,100	Kitchener, Ont.
Georgetown, Ont.	11,800	Brampton, Ont.
Hull, Que.	34,200	Ottawa, Ont.
Ingersoll, Ont.	11,100	Woodstock, Ont.
Levis, Que.	22,300	Quebec City, Que.
Newcastle, N.B.	6,200	Chatham, N.B.
Paris, Ont.	14,000	Brantford, Ont.
Port Credit, Ont.	57,000	Oakville, Ont.
St. Mary's, Ont.	5,500	Stratford, Ont.
Sackville, N.B.	5,500	Amherst, N.S.
Thorold, Ont.	29,600	St. Catharines, Ont.
Walkerville, Ont.	85,400	Windsor, Ont.
Wolfville, N.S.	5,400	Kentville, N.S.
	<u>\$ 372,800</u>	

Most of these ports are within ten and all are within fifteen miles of the larger adjacent port. There may be other ports in Canada in a similar situation.

Responsibility for opening and closing customs ports lies with the Governor in Council who acts on the recommendation of the Minister of National Revenue. The Audit Office is not in a position to state categorically that any particular port should be closed. However, it is aware of the cost of operating such ports and is of the opinion that, in the interest of economy, the necessity for the continuation of ports in this category should be reviewed from time to time. Where a port cannot be closed completely, savings might result if it were made an outport or a branch of a nearby larger port.

110. Misappropriation of public funds at customs port. The statement of losses which appears on page 46.32 of Volume II of the Public Accounts for 1965-66 records the misappropriation of \$6,595 by a former Collector of Customs. Six members of the Collector's staff were also guilty of misappropriating funds totalling \$846 but all made full restitution during the year and therefore the amounts are included in the category "Losses occurring within the fiscal year and recovered in full".

When it became apparent to the Department that defalcations had occurred, an investigation was made into the transactions taking place at the port between April 1 1964 and September 20, 1965. However, there was evidence that the Collector had been converting funds to his own use since his appointment in 1962.

Therefore, in our opinion, the departmental investigation should also have included the transactions from the date of his appointment to March 31, 1964.

111. *Children's allowances paid to members of the Armed Forces serving abroad.* Since May 1, 1962 allowances provided to members of the Armed Forces posted to a unit of the Canadian Infantry Brigade or the Air Division in Europe have included a children's allowance to compensate them for loss of family allowances which they would have received had the children remained in Canada.

Canadians serving the Crown abroad are required to pay income tax as if they were resident in Canada. However, as family allowances are not payable with respect to children living abroad, all such taxpayers are permitted to claim the maximum exemption of \$550 for each dependent child. Thus members of the Armed Forces are receiving both the children's allowance in place of family allowances and also the income tax exemption of \$550 in place of the \$300 exemption which may be claimed with respect to children who are qualified for family allowances.

The annual loss to the Crown because of this double benefit is equivalent to the income tax on an estimated \$3.3 million of taxable income.

We drew this apparent anomaly to the attention of the Taxation Division of the Department of National Revenue and have been advised that the Income Tax Act, R.S., c.148, and Income Tax Regulations will be amended to provide that the deduction permitted for a wholly dependent child not qualified for family allowances will be limited to \$300 when children's allowance has been paid to a member of the Armed Forces on behalf of a dependent child.

112. *Inadequate control of stores at northern locations.* In our 1965 Report (paragraph 104) we referred to unsatisfactory control of and accounting for stores at northern locations. Particular reference was made to operations of the Department of Northern Affairs and National Resources at Frobisher Bay, N.W.T. We stated that surveys preliminary to the establishment of a consolidated stores operation for the area had revealed that the value of the Department's inventory there could not be readily determined, that the estimated value of stores on hand was considerably in excess of the amount authorized under a revolving fund, and that management and control had been inadequate for a number of years. We also reported that specialists from other government departments had been called in to take inventory and catalogue the stores, reconcile stock records and reorganize the stores layout, and design a stores system to meet area requirements.

Although there has been a considerable improvement in the situation at Frobisher Bay in that additional staff has been recruited, revised procedures have been instituted and the Department is now operating a consolidated stores system to service other government departments in the area, the situation is not as yet fully satisfactory. As at October 31, 1966 action to dispose of surplus or obsolete stores had not been taken, the value of the stores had not been fully determined, and there had not been any determination of the amount of the working capital advance required to finance the stores operation.

Inadequacies continue to exist at other locations which have not had the benefit of a concentrated effort to improve matters such as has been made at Frobisher Bay.

In its Eighth Report 1966 the Public Accounts Committee, stressing the importance which it attached to the matter, urged the Department "to establish adequate controls on all stores in the North with the least possible delay" (see Appendix 1, item 49).

113. *Sale of land to the City of Longueuil, Que.* The Surplus Crown Assets Act, R.S., c. 260, requires that government departments make a report to the Minister of Defence Production of property, including lands, surplus to requirements and that "notwithstanding any Act or order in council enacted or passed before the 11th day of July 1944, no government department shall dispose of any surplus Crown assets except in accordance with this Act". Although the Act enumerates certain property which need not be reported, the general procedure is for surplus property to be disposed of through a central agency, Crown Assets Disposal Corporation.

The Public Lands Grants Act, R.S., c. 224, permits departments to dispose of lands without a declaration of surplus and, as it is later legislation, there appears to be no statutory impediment to a policy of direct sale by any department that decides to adopt such a procedure. The result is that in this respect the Public Lands Grants Act could seemingly frustrate the ends which the Surplus Crown Assets Act is intended to serve.

An instance of a substantial direct sale was observed during the year when the Department of Northern Affairs and National Resources disposed of certain lands under its administration to the City of Longueuil for \$870,000 with the proceeds being credited to departmental revenue. The transaction, which followed lengthy negotiations, culminating in acceptance by the municipality of the Department's 'fair market' valuation, was completed under requisite Executive authority.

The Royal Commission on Government Organization, in its report on "Real Property", recommended that consideration be given to consolidating in a single statute legislation having general application to the acquisition and disposal of real property. The Royal Commission also envisaged the disposal of all surplus property of the Federal Government through a single agency. These recommendations are not included among those which have received Executive approval. Their acceptance would remove the choice now open in respect of the method of real property disposals which in some circumstances might not serve the best interests of the Crown.

114. *Second class mail.* The problem of the loss suffered by the Post Office Department in the handling of mailings by publishers of newspapers and other periodicals (second class mail) has concerned the Public Accounts Committee for a number of years in the course of which it has continued to recommend that consideration be given to ways and means of covering this loss (see Appendix 1, item 1). In its Fourth Report 1966 the Committee stated that:

It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class

mail without this being done at the expense of other classes of mail, keeping in mind however the need of assistance to small independently owned newspapers circulating in rural areas.

For the year ended March 31, 1966 the Post Office Department incurred a net operating deficit of \$34.5 million compared with a net operating deficit of \$11.5 million in the previous year (see paragraph 223). Of this deficit of \$34.5 million, an estimated \$28.1 million resulted from the handling of second class mail.

The urgency of this problem may be seen from the following figures showing the estimated loss in handling second class mail for those years in which this loss has been calculated:

	<u>Cost</u>	<u>Revenue</u>	<u>Loss</u>
1956-57	\$ 25,200,000	\$ 6,300,000	\$ 18,900,000
1958-59	27,900,000	6,200,000	21,700,000
1961-62	32,700,000	8,000,000	24,700,000
1965-66	36,900,000	8,800,000	28,100,000

We understand that legislation is to be introduced in the House in 1967 to raise second class postage rates.

115. *Allowance to land mail contractors for services not performed.* Because of the postal strike in July 1965 some contractors were unable to fulfill the terms of their contracts for picking up and delivering mail. The Post Office Department in dealing with the contractors for the period of the strike adopted a general policy of "no work, no pay". Those contractors who were unable to carry out their duties were required to refund to the Department the payments received on their contracts for the period of the postal strike less an abatement of 25%. The abatement was granted in order to cover in some measure the overhead costs of the contractors. The total abatement was \$38,412 and represents payments for which no services were provided.

116. *Post Office Savings Bank.* In our 1965 Report (paragraph 111) attention was drawn to a situation where, of approximately 300,000 accounts in the Post Office Savings Bank, 200,000 are classified as dormant and unclaimed. Interest applicable to the dormant accounts was \$67,000 for the year ended March 31, 1966. We pointed out that the Department was giving consideration to changes required in order that these unclaimed balances might be dealt with in a manner similar to that in which unclaimed balances in chartered banks are handled. The Public Accounts Committee in its Fourth Report 1966 indicated that the Department should bring the matter to a conclusion as soon as possible (see Appendix 1, item 36).

We are advised that the Post Office Department is preparing to recommend appropriate changes in the Post Office Act, R.S., c. 212.

117. *Losses resulting from the sale of the "Canada Law Reports".* The Canada Law Reports are periodicals covering proceedings of the Supreme Court and the Exchequer

Court. They are prepared for the benefit of the legal profession and distributed by the Queen's Printer in two volumes per issue (one for each Court's proceedings) with ten issues per year.

In accordance with agreements between the Crown, represented by the Registrar of the Supreme Court of Canada, and various law societies in Canada, copies are provided free of charge to officers and libraries of the societies and to judges and court officers, while members of the societies are supplied with copies at an annual rate of \$5 per member which is payable by the societies. This subscription rate of \$5 is based on a 1962-63 direct printing cost of \$4.43 per subscription. It should be noted that this cost does not include any costs of compilation, publisher's overhead, postage or the value of services provided without charge by other departments.

The charge for a subscription sold through the Queen's Printer's Sales Promotion Division is \$15.

For the year 1965 some 10,100 copies of each issue of the Reports were printed, of which some 460 copies were distributed free to government departments and others entitled to receive government publications free of charge, some 630 copies were distributed free to law societies, judges, etc., approximately 8,670 were sold at \$5 per subscription and 360 at \$15 per subscription. The paid subscriptions produced an estimated revenue of \$48,750. The direct printing costs, which amounted to \$99,017, equivalent to \$9.80 per subscription, were charged to the appropriation (Vote 5) of the Department of Public Printing and Stationery.

On May 31, 1966 the Department of Public Printing and Stationery advised the Registrar of the Supreme Court that the printing costs had almost doubled since the subscription rate of \$5 was set in 1963. He recommended that the price to the law societies be set at not less than \$10 per annual subscription commencing January 1967.

The agreements referred to above are on a continuing basis but provide that "either party may terminate this agreement at any time, to be effective at the end of the then current year, by mailing postpaid notice of such termination to the other party not later than the first day of October in that year".

As no such notifications were mailed prior to October 1, 1966 by the Registrar of the Supreme Court, losses to the Crown from these sales will continue throughout the calendar year 1967.

118. Real property inventory. In 1956 the Treasury Board issued the Crown Land Registry Regulations providing among other things for the establishment in the Department of Public Works of a central land registry in which every interest in real property vested in the Crown, with certain exceptions, was to be recorded.

In reporting on "Real Property" in 1962 the Royal Commission on Government Organization referred to valuable work done by the Department of Public Works since 1956 and agreed that an elementary record had been created which covered a substantial proportion of government properties. The Commission felt, however, that there were

major deficiencies in this record to be overcome before it had real utility from a management standpoint. One was that, as in its existing form it provided no more than the location of a parcel of land and a description of its boundaries, it was essential that much more information be recorded, such as the use to which the land was being put, the structures standing on it, the cost and date of acquisition, the value assigned for the purpose of making grants in lieu of taxes, and the like.

In December 1962 the Department of Public Works was instructed by the Cabinet to "develop a complete inventory of properties owned or leased by the Federal Government and its agencies and maintain it as a perpetual record by posting to it all future acquisitions and disposals as they occur as recommended by the Royal Commission on Government Organization".

Within a few months the Department had prepared procedures to be adopted to establish and maintain such an inventory. The actual accumulation of information was to begin by September 1963 and indications of support from the land-holding departments and agencies led the Department to assume that the inventory would be substantially completed by April 1, 1964.

In developing the basic information required for the inventory, the Department felt that its make-up should be such that it could be the principal tool for real property management should the Government implement other recommendations of the Royal Commission with respect to property management. Some of the larger land-holding departments were reluctant to undertake the compilation of the inventory material in the form requested and, despite efforts of the Department of Public Works to simplify procedures, did not make significant returns. Accordingly, the Department sought to have decisions of the Government in the property management field reached before giving further consideration to the material to be inserted in the records.

Ultimately it was decided to reactivate an interdepartmental committee to develop revised real property inventory regulations. These were developed but when submitted to the Treasury Board, the Board requested that they be reviewed by a committee established in May 1965 to advise the Board on real property matters. Consequently it was not until May 1966 that the Real Property Inventory Regulations became effective, requiring all departments, departmental corporations or Crown corporations as defined in the Financial Administration Act to report for purposes of the inventory all real property holdings, with certain specified exceptions, and changes as they occur, in a form prescribed by the Department of Public Works.

Because of the responsibility of the Auditor General to ascertain whether essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property, the progress of the Department in further developing the real property inventory will be followed closely and commented on in future Reports.

119. *Disposal of Crown property by long-term lease, Vancouver, B.C.* For many years the City of Vancouver had been interested in acquiring a tract of land owned by

the Crown in the Kitsilano area of Vancouver. This land, a part of the former Kitsilano Indian Reserve, comprises 41.74 acres which during World War II became the site of an RCAF establishment. In 1964, at which time 27 buildings of either concrete block or wood frame construction stood on the site, it was no longer required by the Department of National Defence and was turned over to Crown Assets Disposal Corporation for disposal.

An appraisal report prepared for the Corporation at that time placed a market value of \$3,817,000 on the property, with \$1,103,000 being attributed to the buildings, market value being defined by the appraiser as the highest price likely to be obtained from a purchaser buying "with knowledge of all the uses and purposes to which it is best adapted and for which it is capable of being used".

Although a number of government departments and the Canadian Broadcasting Corporation (which wished to acquire 11 acres and five of the concrete block buildings to consolidate its television and radio operations in the area) were interested in the whole or part of the property, a decision was reached to make the property available to the City under a long-term lease. By this time the City had plans for the use of part of the property as the location of a Centennial project to take the form of a museum complex. Accordingly the property was transferred to the administration of the Department of Public Works in order that this Department could make the necessary arrangements.

When Executive authority for the grant of a lease for a term of 99 years at the nominal rental of \$1 per annum was obtained early in 1966, it permitted the City to dispose of the buildings on the site, which it did not require. This arrangement was apparently intended to save the Crown the expense of razing the buildings which in the opinion of the Department of Public Works added no value to the land because of age, condition and type.

The transaction is noted because: (a) it would seem that the property was not truly surplus to federal needs; and (b) without regard to this aspect, due to the terms of the lease, it may in effect be considered as an exception to the general policy stated in 1964 that "property surplus to federal needs be disposed of on the basis of current market value, the municipality directly concerned having been consulted beforehand to determine whether it wished a first opportunity to acquire the property on this basis".

120. *Incorporation of company by officers of the Crown.* Traditionally the creation of a Crown corporation is by special Act of Parliament or under authority of a general Act of Parliament. For example, an amendment to the Department of Munitions and Supply Act in 1940 provided that the Minister might procure the incorporation of companies under the Companies Act and delegate powers and duties to them. This authority is to be found today in section 7 of the Defence Production Act, R.S., c. 62 which provides in part as follows:

7. (1) The Minister [of Defence Production] may, if he considers that the carrying out of the purposes or provisions of this Act is likely to be facilitated thereby, with th

approval of the Governor in Council procure the incorporation of any one or more corporations for the purpose of undertaking or carrying out any acts or things that the Minister is authorized to undertake or carry out under this Act.

(2) For the purposes of this section, upon the request of the Minister, the Secretary of State of Canada may, by letters patent under his seal of office, grant a charter under Part I of the Companies Act constituting such persons as are named by the Minister and any others who may thereafter be appointed by the Minister in their stead or in addition thereto a corporation for any purpose mentioned in subsection (1).

In the absence of a special Act, Parliament may not be aware of the creation of a Crown corporation unless particulars are provided by the Government or some item in respect of the corporation appears in the Estimates. It should be noted that particulars concerning the creation and operations of all Crown corporations incorporated to date under the Defence Production Act and certain other Acts have been placed before Parliament.

An exception to this traditional procedure occurred in the case of a company incorporated by officers of the Crown on March 7, 1956. On that date a charter was granted to the then Deputy Minister, Chief Architect and Secretary of the Department of Public Works constituting them a body corporate under the name of the Public Works Lands Company Limited under Part I of the Canada Corporations Act, R.S., c. 53.

The Company was incorporated for the purpose of acquiring a leasehold or equivalent interest in a property in London, England, title to which was vested in Her Majesty the Queen in right of the United Kingdom. This acquisition, however, did not take place and consequently the Company was inactive until December 1, 1965 when the Governor in Council authorized transfer from the Canadian High Commissioner, for a nominal consideration, of two leases known as the "Canada House lease" and the "College lease" and the unexpired residue of the terms created thereby to the Public Works Lands Company Limited. The transfer provides for the Bank of Montreal, a chartered bank having assets in Britain, to guarantee to the United Kingdom authorities payment of the rent and performance of the tenants' covenants. These leases were transferred to obviate the necessity of transferring them each time there was a change in the appointment of the Canadian High Commissioner.

The letters patent issued by the Assistant Under-Secretary of State for Canada provide for a capital stock of \$3 divided into three shares of the par value of \$1 each which shall not be transferred to any person other than a person approved by the Minister of Public Works of Canada. The purposes and objects of the Company are stated in the letters patent to be to acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or any interest therein. The head office of the Company is to be situated in Ottawa and the operations of the Company may be carried on throughout Canada and elsewhere. Provision is made that the directors of the Company, when authorized by by-law, may from time to time borrow money, limit or increase the amount to be borrowed, issue debentures or other securities, pledge or sell such debentures or securities, and

mortgage, hypothecate, charge or pledge any or all of the real and personal property, undertaking and rights of the Company to secure any such debentures or other securities.

The Company has no books of account, has entered into no financial transactions and consequently has produced no financial statements. Such incidental expenses as occurred were borne by an appropriation of the Department of Public Works.

This matter is brought to attention because it seems desirable that steps be taken to ensure parliamentary control over the purposes for which any Crown corporation is established and over its form of organization and management.

121. *Protracted negotiations for leasing Crown-owned building, Saint John, N.B.*
In 1950 the construction of a building for customs and immigration purposes at Saint John was completed at a cost of approximately \$1,500,000. By 1962 passenger traffic at Saint John had diminished to the point where it had practically ceased and about 95% of the building's space was surplus to needs. Even with limited occupancy, however, annual direct costs of about \$110,000 were being incurred, including service costs, a municipal grant in lieu of taxes, and rent for the site which is owned by the National Harbours Board.

Following inquiries by the Canadian Pacific Railway Company as to the intended disposition of the building, the Department of Public Works early in 1963 commenced negotiations with the Company for the lease of the building. The National Harbours Board was interested in this development because the Board felt that no arrangement should be concluded with parties whose business operations might cause congestion of access roads leading to harbour facilities, and under a 1958 agreement the building could not be used for other than its originally intended purpose without the consent of the Board.

The National Harbours Board had expressed agreement in 1963 to the Department negotiating with the Company but before the parties had reached agreement the Board in January 1964 suggested that the building be transferred to it under a provision of the National Harbours Board Act, R.S., c.187, and that the Board continue negotiations with the Company. The Department agreed to the proposal, which would have relieved it of operating costs, and suggested that the transfer be made with effect from April 1, 1964. This step was not taken, however, because the Board was unwilling to assume responsibility for the building until it had arranged to lease it.

By September 1964, having received no indication from the Board as to its intentions with regard to the building, and with permanent need reduced to little more than 1% of capacity, the Department decided in the interests of economy to close it. This eliminated the service costs of approximately \$47,000 per annum but not the annual municipal grant, in excess of \$53,000 in 1965, and the site rental of \$4,590 per annum payable to the Board.

Early in 1966—three years after negotiations had first commenced—when the National Harbours Board had still not reached agreement with the Canadian Pacific Railway Company on the terms of a lease, the Department obtained Executive authority to rent the building to the Company for a ten-year term, with renewal options, at an annual rental of \$1. The Company assumed full management of the building and is responsible for costs with regard to its maintenance and operation, including taxes and rates, and the ground rent. In return the Crown is permitted to occupy without charge such areas as will be required from time to time or permanently for various federal services.

122. *Eating facilities for Crown employees in public buildings.* In 1957 the Treasury Board recorded its approval of a statement of policy respecting the installation of eating facilities for civil servants in public buildings. In respect of cafeteria installations, the statement provided that:

In general cafeterias will be installed in public buildings only when (a) the civil service population is large enough to ensure that the operation can be conducted without any loss of public funds; (b) there are inadequate or inappropriate commercial eating facilities in the vicinity of the public building or operations are conducted at times when the adjacent commercial eating facilities are not available; and (c) the Treasury Board approves the installation.

The Department of Public Works administers all eating facilities in buildings coming under its jurisdiction. Cafeteria facilities are operated by the Canadian National Institute for the Blind or recognized employee associations. The C.N.I.B. does its own catering while the employee associations must call public tenders for a caterer or a concessionaire to provide the food service. The associations then realize a percentage from the caterers' gross sales. In a few instances, in locations where staff associations were operating eating facilities prior to the introduction of the present policy, they are permitted to have their own catering staffs.

Although policy is that cafeteria operations be conducted without loss of public funds, they are in fact subsidized on a substantial scale because no charge is made by the Department for space, fixed kitchen and serving counter equipment, tables, chairs, light, heat, power, water, etc. The extent to which cafeteria operations, as well as numerous canteens, lunch rooms and snack bars, are subsidized cannot be determined until the Department completes steps to segregate operating costs by buildings, and in this process isolates the cost of refreshment facilities.

In addition to the facilities administered by the Department of Public Works, four canteens are operated in the Department of National Defence headquarters' buildings in Ottawa. Two are operated by the Canadian National Institute for the Blind, one by a Royal Canadian Air Force non-public fund organization, and one by a caterer under a long-standing arrangement approved by the Minister. Under agreements, the Canadian National Institute for the Blind pays 2% of gross sales and the other two canteens 3% of gross sales to the National Defence Headquarters Canteen Committee. The Committee

in turn distributes the funds to the various services and civilian employee associations. The prices of items sold in each canteen are periodically adjusted to keep the percentage of gross profit in line with that earned in the year 1960. As in the case of the facilities provided by the Department of Public Works, these operations are subsidized to the extent that the Department provides at no charge, space, light, heat, power, water, etc.

As the Royal Commission on Government Organization pointed out in commenting on food services, it is common practice for industry and commerce to provide meals to employees at less than cost, but such subsidies are carefully costed for purposes of management control. It is obvious that until the Department of Public Works and the Department of National Defence are in a position to ascertain on a continuing basis the actual cost of providing cafeteria and similar facilities for government employees, management control of a desirable standard will be lacking.

123. Interest paid on contractor's claim, Hamilton, Ont. In 1959 the Department of Public Works awarded a contract for the construction of the superstructure of the Burlington Canal lift bridge. Earlier a contract had been placed for the construction of the two piers forming the foundations upon which the superstructure was to be erected, and these were scheduled to be available by August 1, 1959. However, the first pier was not available until March 1, 1960 and the second until June 1, 1960. A result was that the completion of the superstructure, originally planned for March 31, 1961, was delayed for over a year.

In October 1962 the contractor submitted a claim of \$157,435 for his additional costs attributed mainly to this delay. The claim included \$49,029 representing financing charges paid on the net funds expended.

In May 1963 the Department proposed settlement in an amount of \$15,469 representing the only items in the contractor's claim which were acceptable to the Department, plus a 10% allowance. This was in accordance with the standard method of determining such compensation, as prescribed in the costing formula used by the Crown which specifically excludes finance charges from the cost elements to be allowed and provides that such charges are to be covered by the 10% allowance.

The contractor refused to accept this settlement and proceeded to take his case directly to the Department of Finance and the Department of Justice. This culminated two years later in his furnishing the Department of Justice in September 1965 with a schedule summarizing the financing charges or interest he had paid out on the net funds expended on the contract, reduced from \$49,029 to \$42,537. The Department of Justice advised the Department of Public Works that since in their view damages for breach of contract could be established in at least the amount claimed, they recommended settlement.

Although the contractor stated that the figures could be verified by an audit, this step was not taken by the Department. The total claim was finally paid on November 19, 1965 in the amount of \$58,006.

124. *Additional costs due to cancellation of work and construction delays, Frobisher Bay, N.W.T.* In 1962 the Department of Public Works awarded a contract at a price of \$3,711,000 for the construction of various buildings and services at Frobisher Bay primarily for the Departments of National Health and Welfare and of Northern Affairs and National Resources. The main elements of the contract, first phase of a two-stage development, were a hospital, a water treatment plant, a utilidor and piping system, warehousing, roads and parking areas, etc. Provision was also made for site clearing and stockpiling of crushed rock for the second phase of the development.

In 1963 the Strategic Air Command of the United States Government ceased activities at Frobisher Bay and its facilities there became available for use by the Government of Canada. These included a number of buildings, the largest of which was the "composite" building with over 165,000 square feet of space, a power house, a sewage pipe line, etc. As a consequence, planning for phase two and related work under the phase one contract were first suspended, then terminated.

The contractor had included in his tender an amount of \$627,000 for the work related to phase two, which was estimated to involve the excavation of 160,000 cubic yards of rock and 18,000 cubic yards of earth, and the stockpiling of 46,000 cubic yards of crushed rock. At the time that he was requested to suspend work on this element of his undertaking, 117,450 cubic yards of rock and 20,800 cubic yards of earth had been excavated and 1,651 cubic yards of crushed rock stockpiled. A credit of \$78,472 was negotiated for the work not proceeded with, the amount being limited because it was recognized that at this point the contractor had absorbed a major portion of the cost. Camps had been set up and the required men, equipment and materials assembled at the site. Due to high shipping costs, much of the unused material was abandoned.

The final cost of the contract awarded at a price of \$3,711,000 in 1962 was \$3,995,000, including extras, the credit of \$78,472 referred to above with respect to uncompleted work, and a claim for extra costs settled in the amount of \$221,252. Of this latter amount, \$114,747 related to a work stoppage while the effect of the withdrawal of the United States forces was weighed and plans revised. The balance of the claim, \$106,505, was attributed to delays in connection with the relocation of the utilidor and provision of hot water for starting up and testing the water treatment plant, and to increased overhead expenses resulting from the overall delay in completion.

125. *Additional cost due to delay in acceptance of tender, Charlottetown, P.E.I.* The Department of Public Works advertised for tenders for the construction of an office and stores building and a heating plant for the Department of Transport at Charlottetown.

The final date set for the receipt of tenders was September 15, 1965 and the lowest tender received was for \$604,782 which was substantially higher than the Department of Public Works had expected.

As a consequence, considerable time was consumed in verifying that the price would be acceptable to all concerned, including the Treasury Board whose approval of a contract for \$604,782 was not obtained until November 15, 1965—one day beyond the sixty-day period during which a tenderer is bound to enter into a contract if his offer is accepted. The tenderer was then asked on the following day if he would be prepared to enter into the contract at the price of \$604,782 if it was awarded without further delay but he replied that it would be necessary to increase his price by \$39,182, bringing the total cost to \$643,964. He explained to the Department that the increase was largely due to the increased cost of labour caused by the implementation of the Canada Pension Plan, additional winter heating and protection and risk of delay due to inclement weather, together with extra cost involved in foundation works and piling to be carried out in mid-winter and also increases in the prices of certain sub-contractors.

The Department of Transport stated that the accommodation was urgently required and that it appeared improbable that any price reduction would result from another tender call in 1966 so the Treasury Board approval of the contract in the amount of \$643,964 was sought and obtained on December 22, 1965.

Failure to accept the original tender within the sixty-day period therefore resulted in an additional and non-productive cost of \$39,182.

126. *Test borings which proved to be inadequate.* Before calling tenders for projects involving the removal of either soil or rock on land or below water it is the practice of the Department of Public Works to make test borings of the area and then to indicate to prospective tenderers the nature of the terrain involved. The Department maintains a test-boring unit consisting of about 30 employees which undertakes approximately one-third of the annual test-boring workload. The remaining two-thirds of the work is performed under contract by specialists in the field.

Sometimes it later becomes apparent that the test borings did not give a true picture of the sub-soil conditions and for that reason the Department has incurred substantially larger expenditures than had been anticipated. These expenditures include the additional costs which have to be incurred in order to meet the actual conditions as well as non-productive costs which are sometimes incurred, principally because jobs are delayed while plans are revised.

When discussing before the Public Accounts Committee the consequences of borings which prove to be inadequate, departmental officials were emphatic that the incidence of such cases was very small in relation to the total number of jobs undertaken, and that to increase the number of borings made in each case would result in considerably greater expense than is now being incurred as a consequence of borings proving to have been inadequate.

We have been informed by the Department that it has not kept statistics of the number of instances in which borings have been inadequate in relation to the total number of jobs undertaken by the Department. Lacking this information, we are unable to make an assessment of the situation in numerical and financial terms.

In the course of the audit the following cases were noted where test borings which proved to be inadequate resulted in costs exceeding estimates by substantial amounts and/or non-productive expenditures during the year:

1. Willow Cove, N.S.—In 1963 the Department gave consideration to harbour improvements, including the dredging of an entrance channel and mooring area, at Willow Cove.

Test borings in a pattern generally followed in the area were made by the Department in order to estimate the nature and quantities of materials to be removed by dredging. On the basis of these test borings, the Treasury Board in June 1964 authorized the award of a contract in an estimated amount of \$133,360, the unit prices of the successful tenderer being \$20 per cubic yard for the "Class A" boulders and \$1.68 per cubic yard for the balance.

Because the test borings were totally inadequate to accurately reflect the nature of the material to be removed, the boulder content was greatly underestimated. In order to complete the job, it became necessary to seek Treasury Board authority to increase the amount of the dredging contract three times in 1965: in March by \$197,908, in May by \$93,995 and in November by \$66,101. The final cost was \$490,900 rather than \$133,360.

The point of concern here is that the Treasury Board, acting on incorrect information, approved a project which it might not have been prepared to approve had the real cost been known to it.

When it became evident to the Department that the contract estimate of "Class A" material would be exceeded, steps were taken, in accordance with the contract, to negotiate a new unit price. Generally this results in a lower rate. In this instance, however, due to a very slow production because of the mass of boulders mixed with the other material, the contractor offered to proceed at a price of \$50 per cubic yard. Suspending the contract at this point, pending negotiations, was considered but it was apparent that if the contract was delayed there would be heavy charges because the dredging equipment on the site had a high potential earning power. Termination of the work was also contemplated but it was felt that if this step were taken and new tenders were called, the result might be even more costly. In view of these factors and the private investment being made in facilities which the harbour improvements would service, it was considered advisable to have the contractor continue his operations and in the interim endeavour to reach a fair price. Through further negotiations a rate of \$34.91 per cubic yard was agreed upon as being reasonable for the "Class A" boulders in excess of the contract estimate.

2. St. John's, Nfld.—In 1961 the Department entered into a contract for harbour improvements (North Shore) at St. John's. Part of the project involved the dredging of an area in which test borings gave no indication of the presence of rock. It later became apparent, however, that at one location within the limits of the work, rock strata lay above the designed dredging depth. The removal of this outcrop upset the scheduling of some of the contractor's other operations and he submitted a claim for additional compensation, contending that certain equipment could have been released from the site considerably earlier for use elsewhere if the unforeseen conditions had not been encountered. During the year he was paid \$65,291, comprising \$63,120 for equipment rental costs involved in a three-month extension period and an allowance of \$2,171 for overhead.

3. Victoria, B.C.—In 1963 the Department awarded a contract for the construction of a forest research laboratory for the Department of Forestry at Victoria at a fixed price of \$2,399,000. The cost of the building completed during the year, including extras, was \$2,622,000.

Test borings were made at the site by a private firm. This firm had been requested by the Department to drill 12 holes at locations shown on a departmental plan but during excavation by the contractor it was found that the bore holes, due to their spacing of up

to 100 feet apart, had not truly indicated the rapid changes in rock elevations. Further drilling in a particular area showed actual rock elevation to be 10 feet below that earlier indicated. As a result it was necessary to redesign the foundations.

During the year the contractor was paid an amount of \$23,913 to compensate him for costs incurred when a delay of two months resulted because of the substantial difference between site conditions as specified and as actually encountered. The firm which had made the sub-soil tests admitted to some ambiguity in their report but stated that this was due to their being unaware that the building was to rest directly on bed-rock; had they been aware of this they would have recommended a more detailed rock profile.

4. *Rivière du Loup, Que.*—In July 1963 the Department awarded a contract at a price of \$677,000, based in part on fixed unit rates for estimated quantities, for a new wharf with services and accessories at Rivière du Loup. The project was completed in 1965 at a cost of \$859,000, the increase of \$182,000 being due primarily to changes in the scope of the work caused by bed-rock elevations and overlying material not being as indicated by test borings.

As this necessitated a major change in the plans the contractor was asked to suspend his work in November 1963, and he agreed to make no claim in that regard provided he were permitted to resume his operations by April 1, 1964. As he was not instructed to resume operations until April 28th, he submitted a claim for standby rental of equipment, wages and insurance for April 1964. This was settled in the amount of \$14,098 in February 1966.

127. *Preliminary costs for abandoned wharf project, St. George's, Nfld.* In 1963 the Provincial Government and a Newfoundland paper company asked the Department of Public Works to give consideration to the construction of a wharf at St. George's to facilitate the export of pulpwood. The company stated that it expected to export a considerable quantity of wood over a period of years and there was a possibility that others would use the wharf for the same purpose.

As it seemed likely that a wharf would be used extensively and produce a good return through wharfage tolls, the Department incurred expenses for surveys, soundings and soil investigation during 1964 and engaged a firm of consultants to prepare plans and specifications for the project which it was estimated would involve an expenditure of about \$650,000.

However, before any construction had been undertaken, the company informed the Department in February 1965 that the situation had changed completely as a result of a recent announcement by the Provincial Government concerning the establishment of a mill for the processing of pulpwood by another company. They advised the Department that this would result in a drastic curtailment or entire elimination of the exports they had forecast, hence the wharf would not be required.

Direct costs of \$20,177 for preliminary expenses had been incurred by the Department in connection with the project before it was abandoned.

When building facilities to provide a service to be used chiefly for transporting a particular commodity, it is customary for the railways of Canada to require the guarantee of a certain minimum traffic before proceeding with the additional investment required.

Had the Department protected the Crown with such a guarantee prior to embarking on the \$650,000 expenditure program, the loss of \$20,177 to the Crown could probably have been avoided.

128. *Costs of leased special-purpose accommodation assumed by Department of Public Works.* In 1957 the Treasury Board, recognizing that there had been some inconsistency of practice as to which department should pay building construction costs, laid down certain general rules to be followed. The Board felt that generalized office space, including post offices, federal buildings and other office accommodation which, while immediately required for a specific department, might during its life be used by other departments of the Government, should be provided for in the estimates of the Department of Public Works. On the other hand, excepting in the Ottawa area, it was felt that provision for specialized accommodation required by individual departments should be made in the estimates of the user department.

While this policy has been followed with respect to construction costs, an anomalous situation appears to exist in that when the Department of Public Works leases special-purpose accommodation for another department, whether in the Ottawa area or elsewhere, there is no assessment against the department concerned. An example is the provision of leased accommodation for the Queen's Printer's bookstores in Halifax, Montreal, Toronto, Winnipeg and Vancouver at a total annual rental of over \$100,000 charged to Vote 5 of the Department of Public Works. In this connection it was the view of the Royal Commission on Government Organization that the bookstores should be expected to operate on a sound financial basis by requiring them to budget and pay all costs out of revenue.

129. *Funds not accounted for by former officers.* In our 1965 Report (paragraph 124) we noted that the statement of losses in the Public Accounts for 1963-64 had included items of \$912 and \$470 attributed to "misapplication of, or omission to account properly for, public funds". These losses were established by the Royal Canadian Mounted Police as having been caused by the failure of two of its officers to properly account for public moneys in their charge. It was stated that the officers involved had been compulsorily retired on pension "to promote efficiency", the pension in one case being reduced, under a provision of the Royal Canadian Mounted Police Pension Continuation Act, to relate to the period of satisfactory service prior to the time of misconduct.

It was further pointed out that when the R.C.M.P. had sought to collect the amounts of the two losses by pension deductions, and had asked the Department of Justice to consider a reference to the Treasury Board in order that the losses might be discharged in this manner, the Department had advised that the material assembled by the Force did not establish that the two former officers "are indebted to Her Majesty in right of Canada within the meaning of section 95(1) of the Financial Administration Act and that, in any event, there is no specific sum within the meaning of that section".

Consequently, although the Royal Canadian Mounted Police was satisfied that the losses had occurred and in the circumstances had compulsorily retired the offenders, no recovery will be effected from the officers' pensions.

130. Deficit on inspection services. The Standards Branch of the Department of Trade and Commerce is responsible for the administration of the Gas Inspection Act, R.S., c.129; the Electricity Inspection Act, R.S., c.94; and the Weights and Measures Act, R.S., c.292. As authorized by these statutes, fees are charged for the related inspection services. Two of the statutes specify that fees are to be regulated so as to meet the cost of carrying these Acts into effect and, although the Weights and Measures Act does not explicitly require revenues from fees to match the cost of the inspection services, it is our view that they should do so.

In our 1965 Report (paragraph 126) we pointed out that direct costs of administration of these statutes had exceeded revenues for a number of years and recommended a complete reassessment of the rate structure in order to recover, to the extent possible, the total cost of the services. There has been no reassessment and, for the year ended March 31, 1966, direct costs of administration exceeded revenues by \$735,000. These costs include only salaries and expenses of district offices. The inclusion of the costs of operating a laboratory, of branch administration and of services provided by other departments would increase the deficit to an estimated \$1,710,000; consequently, a reassessment of the rate structure is overdue.

131. Purchase of uranium concentrates without prior approval of Parliament. For the past three years the Treasury Board, with the approval of the Governor in Council, has granted authority for Eldorado Mining and Refining Limited to purchase and stockpile uranium concentrates for the Government of Canada. Each year funds for the purchase of the concentrates were provided by a "Loans, Investments and Advances" appropriation of the Department of Trade and Commerce. At December 31, 1965 the Company was the custodian of concentrates costing \$33,012,000.

On August 18, 1965 the Treasury Board instructed Eldorado Mining and Refining Limited to purchase and store additional uranium concentrates for the stockpiling program but, since no parliamentary appropriation existed at the time for the purpose, the Company was further instructed to use its own funds. The Company was informed that it would be reimbursed, with interest, following approval by Parliament of an item to be included in the Supplementary Estimates 1965-66. The item was included in the Supplementary Estimates Vote L77d and \$12,375,000 became available on February 8, 1966 when Appropriation Act No. 1, 1966 was assented to. Accordingly, on February 15, 1966 the Company was repaid the \$9,520,000 which it had expended. Interest amounting to \$96,000 was later paid.

Section 30(1) of the Financial Administration Act provides that no contract providing for the payment of any money by the Crown shall be entered into or have any force unless the Comptroller of the Treasury certifies that there are sufficient funds available out of a parliamentary appropriation or out of an item included in estimates

before the House of Commons. By instructing Eldorado Mining and Refining Limited to purchase uranium concentrates with its own funds, the Treasury Board circumvented this section of the Act. It should also be noted that the wording of Supplementary Estimates Vote L77d did not clearly indicate to Parliament that the uranium concentrates for which the approval of the funds was being sought had, in fact, been purchased several months earlier.

132. *Cost of salvaging sunken vessel.* In our 1965 Report (paragraph 129) reference was made to the costs incurred by the Crown in connection with the removal of an abandoned wreck containing an oil cargo which was considered to be a serious threat to water fowl, marine life and coastal property. It was pointed out that as the wreck was not a menace to navigation there was no legislation under which the private interests involved could be held responsible for its removal or for costs if removal was undertaken by the Crown.

The Public Accounts Committee, in its Eighth Report 1966 (see Appendix 1, item 45) recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future. We have been informed that the Department intends to include such a proposal among others for amendments to the Canada Shipping Act, R.S., c.29, which are now being prepared.

133. *Continuing federal assistance to intra-provincial ferry service.* In our 1963 and 1965 Reports attention was drawn to the continuing outlay by the Department of Public Works with respect to ferry landing facilities to service intra-provincial ferries despite the general policy of the Department and the Treasury Board to regard such facilities as a provincial responsibility.

During the year a similar case involving funds of the Department of Transport was noted which had its origin in 1960. In that year the Federal Government built an auto ferry for the Portugal Cove - Bell Island service in Newfoundland at a cost of \$1,170,000. The vessel was chartered to the company holding the provincial franchise for the operation (see paragraph 102 of our 1962 Report).

Soon after the new ferry commenced operations it became apparent that the existing terminals were inadequate for its purposes and that under certain conditions its safety was endangered. Although the Federal Government maintained that the provision and upkeep of the terminals were provincial responsibilities, the Province took the stand that, as the Federal Government had unilaterally undertaken to provide the service, which had not been asked for by the Province, there was no obligation on the part of the Province to provide the terminals which it regards as part of the service volunteered by the Federal Government.

In order that the service could continue without hazard, repairs and modifications of the terminals were made during the period 1961 to 1963 at a cost of \$165,816, which was charged to Department of Transport appropriations. In November 1965 a contract was awarded by the Department of Public Works on behalf of the Department of

Transport for improvements and repairs to both terminals at an estimated cost of \$287,835 of which \$98,849 was incurred to March 31, 1966. The expense was charged to a specific item for "Bell Island - Portugal Cove, Newfoundland, ferry service—repairs and improvements to terminal facilities owned by Newfoundland", included in the Estimates Details for Department of Transport Vote 20b.

134. *Additional cost due to construction delay, Swift Rapids on the Severn River, Ontario.* In October 1963 the Department of Transport entered into a contract for the heavy construction portion of a new navigation lock to replace an outdated marine railway at Swift Rapids. In January 1964 a contract was awarded for the steel requirements of the project, involving the design, supply and installation of lock gates, valves, operating machinery, controls, embedded parts and miscellaneous equipment.

The first contract called for operations to be scheduled to permit the marine railway to be operated during the summer of 1964 and for completion of the work by June 30, 1965. The contractor's schedule which was accepted by the Department indicated that the secondary concrete pours, into which certain parts of the steel work were required to be embedded, were to be made between May and November 30, 1964.

In December 1963, on learning that the tender call for the steel contract made no mention of his accepted construction schedule, the general contractor had requested that conformity to his schedule be made a condition of the steel contract. In spite of this the contract for the steel portion did not call for completion until May 1, 1965. Subsequent negotiations by all concerned resulted in a revised schedule which indicated completion of the secondary concrete pours by December 30, 1964.

Due to a strike in the steel industry, the steel contractor was unable to meet the revised schedule and was forced to repeatedly postpone delivery dates of parts to be embedded so that the general contractor found it necessary to operate his concrete plants and nearly all his equipment from December 30, 1964 to June 30, 1965, primarily to accommodate the steel contractor.

The general contractor contended that because of the Department's failure to consider his already accepted schedule at the time of the award of the steel contract, he was entitled to claim, under a contract condition providing for full compensation in the event of extra expense, loss or damage directly attributable to neglect on the part of the Crown. The Department recognized the net additional cost to the contractor between January and June 1965 as a valid claim and accordingly paid him \$200,824 in settlement.

A recent change in departmental policy is to let one contract instead of two for work of this nature, thereby placing the responsibility for work scheduling with the prime contractor.

135. *Additional cost arising from an exchange of ship construction contracts.* In January 1965 the Department of Transport entered into a contract for the construction of an icebreaking, rail car, automobile and passenger ferry for service in the Northumberland Strait at a price of \$13,199,000.

The Department regarded it as a matter of paramount importance that the ship be operational by the late summer of 1967 if facilities were to keep pace with the growth in traffic. Consequently, the contract called for delivery of the vessel in June 1967. By September 1965, however, the company had not commenced construction and the Department concluded that not only would the contractor be unable to meet this delivery date due to the volume of work within the shipyard and design deliberations by the Department, but that it was unlikely that any date in 1967 could be met.

Also in September 1965 the Department was authorized by the Treasury Board to enter into a contract with another company for the construction of an icebreaking, buoy tending and supply vessel for the Gulf of St. Lawrence service at a price of \$10,231,000. This price, lower than the company's tender, was a negotiated one based on the tender of the same company which had been awarded the contract for the Northumberland Strait ferry. This lower tender had not been accepted because the Department felt that the facilities of the company involved were inadequate to construct simultaneously the ferry, the Gulf service vessel and an Arctic patrol icebreaker, for which it also had the contract.

In seeking to ensure delivery of the ferry vessel in 1967, the Department approached the two companies with the proposal that the contracts for the ferry vessel and the Gulf icebreaker be exchanged. They were agreeable and the ferry vessel is to be completed not later than September 27, 1967. However, the company receiving the icebreaker contract presented a case for an additional amount due to the fact that its original tender of \$10,231,000 had not provided for administrative costs since it was intended that the ferry contract and other existing contracts would absorb the company's total administrative costs. The surrender of the ferry contract made this impossible. The final result was that in addition to receiving the contract for \$10,231,000 the contractor was paid \$200,000 as recompense for a portion of the administrative overhead which could not be absorbed because of the transfer of the ferry contract.

The company receiving the ferry contract at \$13,199,000 had originally bid \$171,000 less for that contract but had failed to obtain it because it had provided in its bid for escalation on materials and other conditions not in accordance with the specification requirements.

136. Additional costs due to contract cancellation, Trois Rivières, Que. In August 1960 the Department of Transport entered into a contract with the lowest tenderer, whose bid was \$461,983, for the construction of a runway, a parking area, a connecting taxiway and an access road at the Trois Rivières airport.

The contract was completed on schedule by October 31, 1961 at a total construction cost of \$591,049 but only after the contract had been taken out of the hands of the original contractor in June 1961 and given to the second lowest tenderer to complete.

Although the original contractor was somewhat ahead of schedule in December 1960 when work was suspended for the winter months, a number of contentious points had arisen between the Department and the contractor, including failure to agree on measurements of excavation and drainage material. Following a quantity survey made

by the Department to resolve the measurement dispute, the contractor was notified on May 18, 1961 that the site had been suitable for working for some days and that he should resume work. When he did not do so before June 1, and efforts to communicate with him had been unsuccessful, he was given notice in accordance with the terms of his contract that if he failed to put an end to default and delay in diligently executing the works on or before June 12, it would be taken out of his hands. Although work was apparently resumed on June 12, the contractor was informed two days later that his contract had been terminated and that agreement had been reached with another contractor for the completion of the work.

The Department endeavoured to invoke the performance bond provided by the contractor but the bonding company refused to accept any responsibility, contending that the bond became invalid when, without prior reference to it, the contract was cancelled by the Department and the completion of the work entrusted to another contractor.

The original contractor sued for work completed up to the time he was ordered off the site and for damages sustained as a result of the cancellation of the contract. Counter-suit was brought against him for the additional costs incurred in having the contract completed by another contractor.

In November 1965 the Exchequer Court of Canada ruled in favour of the contractor in respect of both suit and counter-suit, and awarded him an additional \$28,594 for work performed to December 31, 1960 and \$4,500 in damages. The Court found, *inter alia*, that (1) the notice of June 1, 1961 had been waived by subsequent actions of departmental officials, (2) he had not been in default, and (3) the notice of cancellation of June 14, 1961 had lacked proper authority.

Consequently, the cost of the undertaking, which on the basis of final quantities would have been \$462,433 if the original contractor had proceeded with the job to completion, can be expected to be in excess of \$625,000 after payment of the Court award and associated costs.

137. Settlement of damage claim, Grande Prairie, Alta. On January 26, 1962 the airport maintenance staff at Grande Prairie were engaged in snow clearing operations on the airport's runways and aircraft manoeuvring areas. This was made known to intended users of the airport. An aircraft which was landing struck a snow ridge close to the approach end of the runway. The impact resulted in the collapse of the undercarriage causing damage for which \$69,785 was sought as compensation.

The owners of the aircraft maintained that the presence of the snow ridge and the failure to remove it or warn the pilot of its presence on the runway he had selected for the landing represented negligence. The Department's view was that the pilot was negligent in that he did not exercise necessary precautions and good judgment while landing his aircraft under the conditions prevailing at the time. He knew that snow clearing operations were being carried out, and should have known that he could expect an accumulation of snow within the runway approach area. It was also felt that he should

have questioned the serviceability of the threshold area when, on final approach, he noted snow fighting equipment within its immediate vicinity, and that he should have taken the same preventive measure, landing well down the runway, that he had taken on landing on another runway at the same airport earlier in the day.

In March 1966 the Department of Justice informed the Department of Transport that the aircraft owners had agreed to forego court action and give the Crown a full release in consideration of the payment of \$26,000, the terms of settlement to include an agreement that there would be no admission of liability on the part of the Crown. The Department of Justice recommended these terms of settlement as being most favourable to the Crown on the basis of information available. Payment was made with Treasury Board approval.

138. Cost of failure of vessel to complete voyage. The Department of Transport entered into a contract in 1962 for the shipment of cargo to Pangnirtung, Baffin Island. The ship sailed from Montreal on August 24, but on August 30, when off the coast of Labrador, experienced major engine trouble which required that she be towed to Sydney, N.S., for repairs.

Late in September, before repairs had been completed, the shipping company informed the Department that it was unable to obtain insurance for a northern trip at that late date and suggested that the Department insure the vessel for the trip or store the cargo at the Department's expense for shipment in 1963. Since it was imperative that the goods be delivered currently to Pangnirtung, the company was informed that a ship of the Department's coast guard service would be sent to pick up the cargo.

As the shipping documents called for prepayment of the ocean freight charges the company refused to release the cargo until it was guaranteed payment of the freight. When it was apparent that to refuse payment would result in litigation which would delay matters to the extent that a considerable portion of the cargo would have to be airlifted at greatly increased expense, Treasury Board approval of payment of freight in the amount of \$23,076 was sought. This was given, with the requirement that the Department pursue, subject to the advice of the Department of Justice, the question of recovery from the shipping company of any expenses incurred in connection with the matter.

As the disabled ship had been taken in tow with government cargo aboard, the Crown also found itself liable for \$12,726 as its share of the salvage award in accordance with international marine law.

As directed by the Treasury Board, the Department pursued the question of recovery of expenses with the Department of Justice in 1962 and again in 1964 after payment of the salvage award. In July 1966 the latter Department gave its opinion that as the shipping documents did not specify that the cargo be delivered in 1962, the Department of Transport had no valid claim against the company. As recovery will not be made, it is now evident that the outlay of \$35,802 with respect to the freight charge and the salvage award represents a non-productive cost.

139. Cost of delay in construction of a tie-up wall, Carillon Lock, Ottawa River. In 1964 the Department of Transport entered into a contract for the construction of a tie-up wall at Carillon Lock on the Ottawa River. The specifications provided for the placing of a cofferdam in the channel downstream from the work area and the de-watering of the area between the cofferdam and the breast wall of the lock in order that the wall might be constructed in the dry. However, the specifications did not disclose the existence of a system of rock drains in the breast wall which discharged water into the work area. This was discovered by the contractor when he obtained from the Department drawings of the breast wall structure after his de-watering efforts had been unsuccessful. He advised the Department by letter in May 1965 that he believed the departmental engineers "had a duty to at least look at the drawings of the south entrance wall before specifying it be used as a cofferdam and that in not doing so they were negligent within the meaning of the specifications".

The Department did not dispute this and the contractor was paid \$7,358 to compensate him for costs attributed to the delay of approximately four weeks in his work.

140. Awards under the Pension Act. Our Reports in prior years have made reference to inconsistencies and ambiguities in the Pension Act, R.S., c.207, that have made it difficult to determine whether awards were in conformity with the provisions of the Act, particularly those granted on a discretionary and compassionate basis and to persons in a dependent condition. The Public Accounts Committee in its Eighth Report 1964 made recommendations designed to overcome these shortcomings (see Appendix 1, item 25), including: (1) that the "specially meritorious" circumstances under which an award can be made, be defined; (2) that the ambiguities and inconsistencies in the Act relating to payment of multiple pensions on the death of a member of the forces and awards to widowed mothers not incapacitated from earning a livelihood be eliminated; (3) that a new section be added to the Act to cover deliberate disposal of property for the purpose of qualifying for a dependent parent award; and (4) that consideration be given to the legality of the award of a second pension to a dependent parent after entitlement has been lost in respect of another child.

The Minister of Veterans Affairs wrote to the Chairman of the Public Accounts Committee on March 3, 1965 but the Committee has not yet considered his comments or its observations and recommendations.

The 1965 Report made reference to the appointment in September 1965 of a committee of three persons not connected with the Department of Veterans Affairs or the Canadian Pension Commission for a survey of the organization and work of the Canadian Pension Commission and for preparation of a report and recommendation thereon to the Minister of Veterans Affairs. Included in the field to be studied is the interpretation of such sections of the Pension Act as, in the judgment of this committee, should be considered. The report of the committee has not yet been received.

The Pension Act has not been amended to overcome the inconsistencies and ambiguities which we have referred to in prior Reports. Consequently, in our examination of pension awards during the past year, it remained difficult to ensure that awards were in conformity with the provisions of the Act.

Clarification of the Pension Act is particularly necessary because the usual checks provided for the protection of the Crown do not operate with respect to it. Section 5(1) reads as follows:

5. (1) Subject to the provisions of this Act and of any regulations, the Commission has full and unrestricted power and authority and exclusive jurisdiction to deal with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension under this Act and to the recovery of any overpayment that may have been made; and effect shall be given by the Department and the Comptroller of the Treasury to the decisions of the Commission.

Not only are the Department and the Comptroller of the Treasury, in fulfilling their functions with respect to the payments of pensions and recovery of overpayments, thus barred from taking their normal part in protecting the Crown but the advice of the Department of Justice is not available in the interpretation of the conflicting provisions of the Act.

141. War veterans allowances. In prior years' Reports, various comments have been made on the administration of the War Veterans Allowance Act, R.S., c.340, including the fact that penalties under the Act and its Regulations for false or misleading statements or incomplete disclosure were seldom enforced; awards, although based ostensibly on need, did not take into account as personal property, equities in mortgages and agreements for sale; and income of children involved in an award was treated as exempt income in the calculation of an allowance even though the recipient might have qualified for increased allowance by considering such children as dependents.

The Public Accounts Committee reviewed these comments and recommended in its Eighth Report 1964 (see Appendix 1, item 26) that all cases of deliberate deception that come to notice be vigorously prosecuted; that mortgages or agreements for sale be recognized as either personal property or an interest in real property and that a reasonable return on these equities be assumed; and that where the presence of a child is the reason for an award at married rates, the income of the child, unless exempted under the Act, be taken into account in determining the amount of the award.

The Minister of Veterans Affairs wrote to the Chairman of the Public Accounts Committee on March 3, 1965 but the Committee has not yet considered his comments concerning its observations and recommendations.

In June 1965 the War Veterans Allowance Regulations were amended to provide that where a recipient has sold real property and the sale is not wholly for cash, the principal and interest payments received in any year under a mortgage or agreement or sale in respect of the property shall be considered as income. Additionally, where the

payments are deemed to be inadequate or so arranged as to qualify an applicant for an allowance under the Act, a fair and reasonable return will be assessed.

Examination during the past year disclosed 32 overpayments involving \$63,700. Although many resulted from inadequate or fraudulent information provided by the veteran, in no case were the penalties under the Act and its Regulations enforced. One particularly large overpayment involved a veteran who was paid an allowance from January 16, 1956 to June 30, 1965 although we were able to establish that he had been continually employed from July 4, 1956. In the period he had been interviewed five times during which he denied any gainful employment and had twice filed a solemn declaration to this effect. He had been last interviewed in November 1962. An undertaking was obtained from the veteran who was 65 years old to refund the overpayment, \$14,579 including the value of free medical treatment, in monthly instalments of \$32.

142. Recoverable costs—treatment of patients, staff meals and accommodation, etc. For some years the annual appropriation of the Department of Veterans Affairs for Treatment Services—Operation of Hospitals and Administration has included authority, notwithstanding the Financial Administration Act, to spend revenue received during the year for hospital and related services, with the amount voted being the net of estimated expenditure less estimated revenue. It should be noted that only the net amount appears in the appropriation itself with the estimated gross expenditure and estimated revenue appearing in the supporting details.

In each of the past six years revenue received has exceeded estimated revenue and in five of these years a portion of the excess has been used to supplement the appropriation for that year. The following table shows the amount of excess revenue in each year and the extent to which it was used:

Year	Estimated revenue	Actual revenue	Excess of actual revenue over estimated revenue	
			Used	Unused
1960-61	\$ 12,862,500	\$ 17,495,000	\$ 1,449,400	\$ 3,183,100
1961-62	16,598,000	20,714,200	—	4,116,200
1962-63	18,987,500	21,179,200	952,600	1,239,100
1963-64	19,952,300	21,052,700	543,900	556,500
1964-65	21,400,000	22,983,300	242,400	1,340,900
1965-66	22,700,000	24,645,000	233,900	1,711,100

Had the Department wished to do so, it was free to spend each year, with Treasury Board approval, the unused portion of the excess of the actual over the estimated revenue as shown in the right-hand column.

In the administration of an appropriation such as this in which only an amount to cover the excess of anticipated expenditure over anticipated revenue is appropriated by Parliament, it is essential, if parliamentary control over expenditure is to be maintained, to restrict the total of the revenue which may be credited to the appropriation

to the amount included in the estimate in calculating the net amount to be appropriated. Otherwise unexpected revenues or unduly low estimates of revenue result in more funds being available to the Department than Parliament intended.

In order to restore parliamentary control in this case, three figures—estimated gross expenditure, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of the revenue used to supplement the net amount appropriated should be limited to the amount of estimated revenue shown in the appropriation.

143. Federal-provincial shared-cost programs. Although information regarding the Federal Government's contribution towards each sizeable federal-provincial shared-cost program is available in Volume II of the Public Accounts in the details of expenditure of the departments administering the contributions, nowhere is the substantial overall total of federal contributions to shared-cost programs provided on a regular basis. The last published compilation of these costs was contained in a booklet prepared in 1963 by the Federal-Provincial Relations Division of the Department of Finance for the use of members of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters meeting in that year.

We believe it would be informative to the House if a detailed summary of the numerous federal-provincial shared-cost programs were more readily available which would show the federal share of the costs, on an annual and cumulative basis. It is suggested that this be shown as an appendix in the Public Accounts.

A comparison of the federal expenditures under these programs for 1965-66 with those of the preceding year follows:

Programs in which costs are shared with:	1965-66		1964-65	
	No. of programs	Amount	No. of programs	Amount
All provinces	23	\$ 480,030,000	26	\$ 504,796,000
More than one but not all provinces ...	34	393,530,000	29	449,057,000
Only one province	22	47,669,000	19	27,806,000
	79	\$ 921,229,000	74	\$ 981,659,000
	=	=	=	=

Five programs—hospital insurance and diagnostic services, unemployment assistance, technical and vocational training, Trans-Canada Highway and municipal winter works—accounted for \$695,933,000 (76%) of the total in 1965-66 and \$755,443,000 (77%) in 1964-65.

Not included in the total expenditure for 1965-66 are tax abatements and tax equalization payments of \$252,519,000 to the Province of Quebec in that year, following its election in 1965 under the Established Programs (Interim Arrangements) Act, 1965, c. 54, to wholly administer and finance certain standing programs in which it is

participating. These programs are: hospital insurance and diagnostic services, effective January 1, 1965, and old age assistance, blind persons allowances, disabled persons allowances, the welfare portion of unemployment assistance and certain aspects of technical and vocational training, effective April 1, 1965.

This amount of \$252,519,000 must be added to the 1965-66 total of \$921,229,000 in order to make a valid comparison with the total for 1964-65.

144. Statements requested by the Public Accounts Committee. Volume II of the Public Accounts for the year 1965-66 includes section 47 headed "Miscellaneous Statements". These consist of four statements prepared by the Comptroller of the Treasury showing additional information called for by the Public Accounts Committee and recommended by the Committee in its reports to the House.

The attention of the House is directed to these at this time because the information contained therein is of interest, particularly to the members of the Public Accounts Committee.

1. Educational leave costs—Page 47.2

This statement summarizes the costs of educational leave granted to employees under section 73 of the Civil Service Regulations. We drew to the attention of the House in our 1963 Report the desirability of having the cost of the educational program shown in the Public Accounts and the Committee recommended that such a statement be prepared (Ninth Report 1964-65, presented to the House on March 15, 1965). The statement first appeared in the 1965 Public Accounts.

It will be noted from the statement that the total costs involving 290 employees for the year 1965-66 amounted to \$600,893. The comparable amount for the previous year was \$487,677 and involved 232 employees.

2. Losses due to accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed—Page 47.3

Inclusion of this information was suggested two years ago to the subcommittee of the Public Accounts Committee which reviewed the form and content of the Public Accounts. The subcommittee endorsed the suggestion and the Public Accounts Committee recommended in its Ninth Report 1964-65, presented to the House on March 15, 1965, that "effective for the fiscal year 1964-65 a statement detailing the amount of losses incurred as a result of the accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed" be included. The Comptroller of the Treasury placed the first such statement in the 1965 Public Accounts.

The statement shows that such losses amounted to \$4,791,800 in 1965-66. This is comparable with losses of \$1,384,508 reported for the previous year.

3. Report of surplus material disposed of in 1965-66—Pages 47.4 to 47.5

In its Seventh Report 1964 presented to the House on December 7, 1964 the Public Accounts Committee recommended that this statement be required for each department and agency declaring material surplus during each fiscal year and that such statement be placed in the Public Accounts effective with the year 1964-65. The Committee made a similar recommendation in its Ninth Report 1964-65 relating to the form and content of the Public Accounts.

It was not practicable for the Comptroller of the Treasury to prepare such a statement for the 1965 Public Accounts and it appears for the first time in the 1966 Public Accounts. It will be noted from this statement that subject to the footnotes thereto, surplus material disposed of in the year was as follows:

	Cost	Value obtained
Obsolete but serviceable	\$ 48,761,000	\$ 1,435,000
Surplus but serviceable	54,983,000	3,262,000
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	\$ 103,744,000	4,697,000
	<hr/>	<hr/>
Surplus but repairable		4,634,000
Scrap		846,000
		<hr/>
		\$ 10,177,000
		<hr/>

4. Summary of accounts properly chargeable to the year 1965-66 but carried over to the year 1966-67—Pages 47.6 to 47.8.

This statement is commented on in the following paragraph.

145. *Unpaid accounts carried forward to new fiscal year.* In its Third Report 1966, presented to the House on June 28, 1966, the Public Accounts Committee commented on instances where appropriations were insufficient to meet accounts coming in course of payment during the year. The Committee stated that it could not countenance overspending of appropriations and expressed the belief that it would be informative to Members of Parliament and to the public, if the Public Accounts of Canada were to include a statement by department and appropriation of all amounts remaining unpaid at the year-end for any reason whatsoever. It recommended that such a statement be included in the Public Accounts of Canada commencing with the year 1965-66.

Pursuant to this recommendation the Comptroller of the Treasury undertook to provide such a statement for 1965-66. This statement appears on pages 47.6 to 47.8 of Volume II of the Public Accounts and reveals that in 30 departments and agencies accounts properly chargeable to 1965-66 aggregating \$31,354,000 had not been paid. The amounts shown in the statement are divided into the following four categories:

Insufficient funds	\$ 6,930,000
Accounts received in the paying office on or before April 28, 1966	3,396,000
Accounts received in the paying office after April 28, 1966	19,088,000
Accounts held by the department	1,940,000
	<hr/>
	\$ 31,354,000
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Not included in the statement is an amount of \$269,000 being a portion of the employer's share of Canada Pension Plan and Quebec Pension Plan contributions for the months of February and March 1966 which could not be paid because of lack of funds in Department of Finance Vote 17.

Of the amount of \$6,930,000 which remained unpaid because of insufficient funds, \$1,589,000 could have been paid had transfers between allotments been requested of and approved by the Treasury Board. It is a policy of the Treasury Board to accept requests for transfers between allotments up to April 30; therefore insufficient funds in an allotment does not justify the non-payment of an account in the proper year when funds are available in the vote.

No reasons are given in the statement for the non-payment in the year of accounts totalling \$3,396,000, which were in treasury offices before April 30. Funds were in fact available in the 1965-66 appropriations to cover payment of \$2,524,000 of this amount.

Of the amounts of \$19,088,000 and \$1,940,000 representing accounts which were not received in the paying offices in time to be paid as a charge to 1965-66 expenditure, it is evident from the lapsings in the relative votes that \$14,638,000 could have been paid had the accounts been received in time.

The reasons for non-payment of these accounts may therefore be summarized as follows:

Failure to obtain transfers between allotments	\$ 1,589,000
Failure to pay although funds were available	2,524,000
Failure to seek supplementary appropriations	6,482,000
Failure to get accounts in on time	14,638,000
Failure to get accounts in on time and to seek supplementary appropriations	6,390,000
	<hr/>
	\$ 31,623,000
	<hr/>

Information is not available as to the amount of the accounts which should have been paid in the previous fiscal year, but which were held over for various reasons and paid from 1965-66 funds. Such accounts may have been a factor contributing to the shortage of funds with which to meet all of the 1965-66 accounts although it should have been possible for provision to have been made for such accounts in one of the five sets of supplementary estimates which were approved during 1965-66. The final Supplementary Estimates (E) were passed by the House on March 29, 1966.

146. Losses reported in the Public Accounts. Section 98(3) of the Financial Administration Act directs that "Every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1965-66 were examined and we ascertained that every loss observed in the audit which was required to be reported had been included in the listings. Losses in the departments other than Post Office numbered 22 and amounted to \$25,998. Of these, 16 totalling \$15,485 were fully recovered and partial recoveries amounting to \$2,110 were effected in three cases.

In last year's Report (paragraph 141) we pointed out that in October 1963 and again in February 1965 we had informed the Treasury Board staff that losses shown as outstanding in the "Summary" of losses in the Public Accounts were not being cleared by transfer to the Guarantee Account. The situation was not fully corrected by March 31, 1966, at which time 21 losses aggregating \$187,426 remained to be charged to the Guarantee Account. The oldest of these had occurred in 1953-54.

Losses suffered by the Post Office Department in 1965-66 numbered 93 and amounted to \$60,589. Of these, 69 totalling \$39,361 were recovered in full, and partial recoveries amounting to \$8,054 were effected in 18 cases.

147. Non-productive payments. In last year's Report (paragraph 142) we explained that, because of the concern of the Public Accounts Committee with the increasing number of non-productive payments, we had endeavoured to pinpoint the underlying reasons for this type of cost, particularly where the circumstances leading to the non-productive payment appeared to have been beyond the control of the department or agency against whose appropriation it was charged.

We believe that this has enabled closer study to be made of the individual cases by those responsible and by the Members of the House and the Public Accounts Committee and consequently we have followed the same procedure in this Report.

It is important to remember that many of the non-productive payments had their origin in transactions commenced in prior years although the payments were not made until 1965-66.

In this Report reference is made to 50 cases of non-productive payments estimated at \$3,628,000. Of these 24 are included in the foregoing paragraphs while the remaining 26 cases are as follows:

1. **COST OF UNUSED OFFICE SPACE, FORT WILLIAM, ONT.**—The Board of Grain Commissioners for Canada held a lease for a term of five years to August 31, 1965, at an annual rental of \$30,000, with respect to accommodation occupied in the Grain Exchange Building at Fort William. In March 1965 the premises were vacated as a result of a move to the new federal building in the same city. Efforts to obtain a "quit lease" were unsuccessful and the Board was required to pay \$12,500 for the unused accommodation.
2. **PAYMENT OF SALARY TO A JUDGE DURING LEAVE OF ABSENCE.**—In last year's Report (paragraph 142) reference was made to payment to March 31, 1965 of \$19,250 in salary during leave of absence to a judge of the Superior Court of Quebec who had been convicted on one count of perjury but, on appeal, was granted a new trial. The judge had previously agreed that from the date of the judgment of the appeal court any leave of absence he might have would be understood to be leave without pay. Consequently, salary was discontinued at the end of October 1965 to which time he had been paid a total of \$31,500 while on leave, of which \$12,250 was paid in the current year.
3. **COST OF PRINTING WHICH WAS DISCARDED, QUEBEC, QUE.**—The National Battlefields Commission had contracted for the printing of a souvenir pamphlet which was being printed when the Chairman of the Commission resigned. As the pamphlet included his name and signature, the printing was suspended. When a new Chairman was appointed some months later the printing was resumed but it was found that the paper had shrunk. It

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was felt that a satisfactory pamphlet could not be produced with this material so it was discarded and a new printing was arranged at a cost of \$10,800. The cost of the work discarded was \$4,506.

4. **COST OF UNUSED SPACE, L'ÉPIPHANIE, QUE.**—Following the Government's decision to reorganize the Reserve Forces, accommodation in the Parish Community Centre at L'Épiphanie which the Department of National Defence had leased for five years beginning April 1, 1962 at a rental of \$6,300 per annum was no longer required. The property was vacated December 31, 1964 and, as attempts to sublet were unsuccessful, the Department paid rent amounting to \$14,175 covering the 27 months to the expiry date of the lease on March 31, 1967.
5. **COST OF UNUSED SPACE, DALHOUSIE, N.B.**—Reorganization of the Reserve Forces resulted in a leased municipal building in Dalhousie being no longer required. The Department of National Defence had leased this building for a period of five years from July 1, 1963 to June 30, 1968 at an annual rental of \$5,400. The building was vacated during December 1964 and, after efforts to sublet were unsuccessful, termination of the lease was negotiated effective June 30, 1967 which required payment of two and one-half years rental amounting to \$13,500.
6. **CLAIM FOR WAGES WHILE ON SUSPENSION FROM DUTY.**—A civilian employee at Canadian Forces Base, St. Jean, Que., was suspended from duty on January 11, 1962 pending the outcome of a court action against him for theft of equipment valued at approximately \$1,000 belonging to the Department of National Defence. After several remands he was tried and found guilty on April 24, 1964. He launched an appeal which, after the introduction of new evidence, was upheld by the Appeal Court of the Province of Quebec in May 1965. Accordingly on August 2, 1965 the employee's suspension was terminated.

The law officers of the Crown expressed doubt about the procedures leading up to his suspension and its validity under provisions of the Civil Service Act, 1960-61, c. 57, in effect at that time. On May 12, 1966 the Governor in Council authorized an ex gratia payment of \$11,200 to the employee, based on 50% of the wages he would have earned, in settlement of his claim for loss of wages resulting from his suspension from duty during the period January 11, 1962 to August 1, 1965, a total of three years and seven months.
7. **QUESTIONABLE PAYMENT ON CONTRACT TERMINATED FOR DEFAULT.**—In June 1962 the Crown entered into a contract for a prototype of an electronic device at a cost of \$15,527 to be delivered by December 17, 1962. This delivery date was extended on three occasions. Test data received up to October 1963 showed that various prototypes produced did not meet the design objectives specified in the contract. The lack of success was attributed not to the difficulty of the work but to the company's failure to keep competent engineers on the project. After continued failure to meet the delivery date, the contractor was declared in default and the contract terminated on November 20, 1963. The company advised that it would consider \$12,570 as a fair settlement of its total costs amounting to \$20,953 but the claim was settled for \$9,673.

8. **WAGES PAID FOR WORK NOT PERFORMED AT PORT COLBORNE, ONT., AND PRESCOTT, ONT.**—As mentioned in last year's Report (paragraph 203) the National Harbours Board is required, under collective bargaining agreements between the Board and the labour unions at Port Colborne and Prescott, to pay workers for "dip time", the initial stage of unloading a grain vessel when only mechanical devices are used. This period may last up to three hours, depending on the size of the vessel, before the services of riggers, rope pullers, scoopers and hold foremen are required. During 1964 these workers were paid an estimated \$20,000 for this time. There was no change in this situation during 1965.

9. PAYMENT OF SALARY FOR WHICH NO SERVICE WAS RENDERED.—During the investigation of his alleged misconduct an employee of the Department of National Health and Welfare was instructed not to report for work. Eight months later the employee was suspended under the provisions of section 57 of the Civil Service Act, 1960-61, c.57, at which time he ceased drawing salary. During the period from cessation of work on December 4, 1964 to his suspension on August 1, 1965 the employee was paid salary in the amount of \$5,928, for which he provided no services.
10. COST OF IDLE TIME AT THE CANADIAN GOVERNMENT PRINTING BUREAU.—The Canadian Government Printing Bureau operates the printing plant in Hull, Que., and a number of outside printing units, to provide printing services for the Senate, House of Commons and government departments. During 1965-66 Printing Bureau employees worked 1.5 million man-hours and, due to work stoppages resulting from machinery repairs or lack of work, there were 42,064 man-hours of idle time which cost \$103,000.
11. ADDITIONAL PAYMENT TO CONSULTANTS FOR WORK PERFORMED BUT NOT UTILIZED, OTTAWA.—In 1964, architects were engaged by the Department of Public Works on behalf of the Centennial Commission to design and prepare complete working drawings and specifications for, and to supervise the construction of, the National Arts Centre in Ottawa.

As the Centre, which is presently expected to cost at least \$40 million, was to be the Federal Government's major centennial project in the National Capital area, it was initially regarded as essential that it be completed and handed over to the trustees not later than July 1, 1967. Because of the timing, complexity and magnitude of the undertaking it was realized that for phases of the project beyond the first one, which involved excavation, site preparation and foundation piling, departures from normal tendering procedures and standard contract provisions would be necessary.

Before a contractor had been selected for the second and third phases (on the basis of replies to a questionnaire submitted to a number of major construction firms and the receipt from those selected of cost-plus proposals involving a maximum price and a management fee) the emphasis on completion in 1967 was relaxed in order to reduce the risks of unduly high costs and of defects which might result from an unusually intensified undertaking. Consequently, the Department was requested to proceed on a more normal program of planning and contracting with a view to completion by the middle of 1968.

A result of the altered approach to the construction program was that the architects, who had been instructed to prepare contract documents which would permit the submission of cost-plus proposals, submitted a claim for extra work and additional costs. After they had allowed credit in areas where the work done could be used in the final design work, they were paid \$44,244 in respect of work performed but not utilized.
12. COST OF DELAY IN CONSTRUCTION OF BRIDGE, OTTAWA.—In 1962 the Department of Public Works entered into a contract for the construction of the Macdonald-Cartier Bridge over the Ottawa River between Ottawa and Hull, Que. The project was completed in 1965 at a cost of \$8,829,000, shared equally by Canada, Ontario and Quebec.

The contractor claimed difficulty in mixing and placing harsh concrete in accordance with contract specifications requiring a water-cement ratio which he contended was too low. Agreement on a higher ratio enabled him to proceed in a normal manner. The Department conceded that initially the mixes were more difficult to handle than could reasonably have been expected and that the contractor was entitled to consideration for the additional cost of handling the mixture as originally specified. Agreement was reached on an amount of \$20,360, based on an hourly rate of \$217 for 93.7 hours above normal time for the mixing and placing of the concrete.

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The contractor also contended that the delay in mixing and placing the harsh concrete had the added effect of delaying the progress of the entire project. After detailed consideration the Department agreed that a period of 11 days would be a reasonable calculation of the delay and a settlement of \$78,361 was made, based on the accepted period and an average daily operating cost of \$7,124.

The cost of the Bridge being shareable, Canada's portion of the outlay of \$98,721 resulting from the delay experienced by the contractor was \$32,907.

13. COST OF DELAYED COMPLETION OF BUILDING DUE TO CHANGES IN THE WORK, TORONTO, ONT.—The Department of Public Works awarded a contract in September 1962 for the construction of the Sir William Mulock Building in Toronto for the Unemployment Insurance Commission. The original contract price was \$2,800,000 and the job was completed in 1964-65 at a cost of \$2,968,000.

To maintain his planned schedule, the contractor required the final partition layouts in September 1963. This timing could not be met because of changes in accommodation requirements. The building was originally designed to accommodate two existing Unemployment Insurance Commission offices but ultimately personnel of four offices were involved. The final determination of partition placing was further complicated by a major organizational change. As a result, for several months only partial progress could be made on the mechanical and electrical work, ceiling systems, etc. The contractor was paid \$11,540 to compensate him for extra costs incurred because of the delay.

14. ADDITIONAL COST RESULTING FROM CONSTRUCTION DELAYS, WINDSOR, ONT.—Reference was made in our 1963 Report (Appendix 1, item 15) to a payment of \$56,443 to the contractor for the alteration and construction of an addition to the federal building at Windsor, to compensate him for costs incurred as a result of delays.

In 1961 the consulting architects in connection with the same project submitted a claim for additional remuneration relating primarily to the delays and to design fees on alternative schemes. During the year this claim was settled in the amount of \$11,828 of which \$9,469 is regarded as non-productive.

15. COSTS DUE TO INADEQUATE PLANS AND SPECIFICATIONS, LES EBOULEMENTS, QUE.—In our 1963 Report reference was made to a contract for major wharf improvements at Les Eboulements. Attention was drawn to the work at that time because the Treasury Board took the view that the Province of Quebec should have shared the cost to the extent that it involved landing facilities for an intra-provincial ferry service.

The 1963 paragraph referred to an accepted tender of \$575,000 for the work which was completed in 1964 at a cost of \$616,982. The claim for additional compensation referred to below was settled in 1965 in the amount of \$17,233 bringing the final cost of the wharf improvements to \$634,215.

Site conditions materially different from those indicated on the plan and in the specifications provided to the contractor accounted for \$7,938 of the settlement. Of this, \$5,018 resulted from encountering a concrete wall, built in 1951-52, in a buried position in the wharf approach. There was no mention of this wall in the plans. The presence of boulders, also not mentioned in the plans, impeded the driving of steel sheet piling and additional costs of \$2,920 were allowed in that connection. This latter amount is only 50% of the costs claimed because the Department maintained that an experienced contractor should have expected to encounter some boulders in the area and made allowance for them and the contractor accepted this view.

The balance of the compensation payment, \$9,295, related to steps required to ensure satisfactory and continued slip operations. Although a movable slip was installed according to the plans and specifications, it failed to operate satisfactorily and remedial action was taken by the contractor to ensure public safety and continued operation of the slip and associated hoisting apparatus.

16. COSTS RESULTING FROM CONSTRUCTION DELAYS, QUEBEC, QUE., AND HALIFAX, N.S.—In October 1961 the Department of Public Works awarded a contract for the supply and installation of a special type of mail handling equipment in new postal accommodation being constructed in the cities of Quebec and Halifax. After the contract had been completed the Department received an account for expenses beyond the contract price and settlement in the amount of \$21,133 was made in February 1966. Although the account related in part to additional services required by the Department, \$8,211 was a consequence of the contractor being delayed by other contractors at both locations. Because construction was behind schedule, power was not available and additional expense arose when it was necessary to carry out initial testing of the special equipment by hand. In addition, although the supplier had completed his installations, he incurred extra costs when his testing was delayed until associated equipment for which he was not responsible was put into operation.
17. COST OF UNUSED PLANS, BORDEN, P.E.I.—In 1963 the Department of Public Works entered into a contract for an extension to the ferry terminal facilities at Borden for the Department of Transport. During the same year the Canadian National Railways, the ferry operator, requested that a new service building be erected at the site to replace a number of small frame buildings. It was decided to have the work performed as an extra to the existing contract, and the contractor was requested to prepare the necessary working drawings and specifications and to submit a firm price. His quotation of \$98,000 was much in excess of what had been expected. As a result, construction of the building was not undertaken and the contractor was paid \$4,560 to compensate him for his planning costs.
18. COST OF REMEDIAL WORK, STE-CROIX DE LOTBINIÈRE, QUE.—In September 1963 the Department of Public Works awarded a contract for the construction of a protection wall along certain private waterfront properties at Ste-Croix de Lotbinière in the amount of \$7,375.

Due to local conflicts concerning the location of the wall, the work was suspended a few days after it was started and in due course the contract was cancelled, \$931 being paid to the contractor.

Due to the lateness of the season the Department did not refill the excavation made by the contractor and the privately-owned wall of a property owner was damaged so severely by erosion that he had to demolish it and construct a new one which met departmental standards. His original claim of \$5,000 was reduced to \$3,000 which was paid in December 1965.
19. COST OF REPLACING SPECIALLY DESIGNED DOORS, NATIONAL DESIGN CENTRE, TORONTO, ONT.—In 1963 the Department of Public Works was authorized to enter into a lease at an annual rental of \$39,840 for premises in a Toronto building then under construction, for the use of the National Design Council of the Department of Industry. Because the space, to be known as the National Design Centre, was to be a focal point of Canadian design, it was considered that the finishing of the leased area should be completed to a high standard at the expense of the Department of Industry to the extent that costs exceeded what would have been incurred by the lessor for normal finishing. This additional cost of special finishing, including consultants' fees of \$7,044, was \$26,799.

A feature of the special finishing was heavy oversize doors for the front entrance, large enough to permit entry of display items which could not be received through the rear doors. Their design, prepared by consultants, had been approved by the Design Council who insisted upon their installation even though the Department of Public Works had pointed out that problems could be expected from them. This proved to be the case. Shortly after the Centre was opened in 1964 it became evident that the doors were hazardous to the public on windy days and were failing to create a good image of improved design in Canada. In 1965 the doors were replaced and the entrance modified at a cost of \$3,050, charged to an appropriation of the Department of Public Works.

20. CONSULTANTS' FEE IN RESPECT OF REVISION OF PLANS, MEAFORD, ONT.—In 1964 the Department of Public Works engaged a firm of architects to prepare plans and specifications and to supervise the construction of a federal building at Meaford, for which a contract was later entered into at a price of \$166,000. Preliminary drawings were approved by local officials of the Post Office Department but through an oversight they were not referred to the headquarters of that Department. After the architects had proceeded with their assignment to the point of tender call, the Post Office Department headquarters became aware of the proposed layout and informed the Department of Public Works that it was unacceptable. As the objections were regarded as valid, revised plans were required from the architects. During the year they were paid \$3,031 for services rendered in connection with the original concept.
21. COST OF UNUSED POST OFFICE SPACE, ST. GEORGES OUEST, QUE.—The Department of Public Works entered into a lease for a term of ten years, effective June 15, 1957, to provide postal accommodation at St. Georges Ouest, the rent being \$2,700 per annum. At the end of August 1965 the premises were vacated as a result of the extension of letter carrier delivery service to the community. As there was no foreseeable need for this space and attempts to sublet had been unsuccessful, the lease was terminated at a negotiated cost of \$2,725 for its unexpired term for which the rental would have amounted to \$4,950.

As a result of discussions in the Public Accounts Committee concerning non-productive expenditures of this type, the Department of Public Works has requested the Post Office Department to inform the Treasury Board in future of the possibility of a non-productive payment with respect to space which will no longer be required if the approval which is being sought to establish letter carrier delivery is granted. The Post Office Department has agreed to do this.

22. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAYS, TORONTO, ONT.—In March 1962 the Department of Transport entered into a contract for the construction of a control tower for the Toronto International Airport which was completed at a cost of \$1,183,000. During the year an additional \$25,227 was paid to the contractor in settlement of two claims for delays to which his work had been subjected:
 - (1) The contractor contended that design changes for the tower control cab had materially delayed completion of this phase of his work, with the result that he had incurred unanticipated costs for overhead and maintenance. The Department accepted responsibility for a delay of four months and a compromise settlement of \$10,244 was made.
 - (2) The contractor contended that the Department was responsible for construction delays due to late deliveries arising from design changes for switchboards and the deletion, then reinstatement, of boilers, the delayed receipt of information respecting re-circulating units and the tardy provision of permanent electrical power. A study

of the claim led the Department to the conclusion that the contractor was responsible for approximately half of the delay and on that basis it negotiated a settlement of \$14,983.

23. PLANS AND SPECIFICATIONS FOR WORK BOAT, NEWFOUNDLAND SERVICE.—In 1964, the Department of Transport entered into a contract with a firm of naval architects for the preparation of plans and specifications for the construction of a tender (work boat) for the St. John's Marine Agency at a negotiated fee of \$19,820. This amount was based on the mutual understanding that a recently-built vessel, designed by these architects for similar duties on the West Coast, would be used as a model for the design of the East Coast vessel. In the spring of 1965, after approximately 80% of the assignment had been completed at a cost to the Department of \$15,856, it was decided that a larger vessel was required.

This decision resulted in a request for a completely new design, together with detailed specifications, for which the architects were paid a further \$26,965. Consideration of the new plans by departmental officials who would be concerned with the operation of the vessel indicated that not only would the proposed 100-foot boat not be suitable for Newfoundland service but the design had not taken into account changes in operational requirements which had taken place in the three years since the replacement of the old work boat had been decided upon. Consequently, the payment of \$26,965 may also prove to have been non-productive.

24. DESIGN, PLANS AND SPECIFICATIONS FOR ICEBREAKING, LIGHTHOUSE SUPPLY AND BUOY TENDER, PRESCOTT, ONT., MARINE AGENCY.—In May 1964 the Department of Transport entered into a contract with a naval architect for the preparation of the design, plans and specifications for the construction of an icebreaking, lighthouse supply and buoy vessel to operate out of Prescott for the upper St. Lawrence and Great Lakes services. The plans and specifications were to be based on those for a Canadian Coast Guard ship already in service, and it was estimated by the architect that the vessel would cost \$2,169,000 exclusive of taxes.

The naval architect completed the necessary plans and specifications in December 1964 at a cost of \$11,520.

Tenders for construction were invited in March 1965 but in the following month the Department withdrew the tender call because its officials decided that the need of an icebreaking capability greater than that to be provided by the proposed ship had been indicated by the combination of unusually heavy ice on the Great Lakes during the winter of 1964-65 and the apparent development of increasingly earlier movements of Great Lakes shipping each spring. In June 1965 the Department entered into a contract with another firm of naval architects at a price of \$63,000 plus incidental expenses for the preparation of the design, plans and specifications for a vessel based on those of a vessel other than the one initially considered for the purpose. As a consequence, the payment of \$11,520 to the initial naval architect for his planning represents a non-productive cost.

25. PLANS AND SPECIFICATIONS FOR WORK BOAT, SAINT JOHN, N.B., MARINE AGENCY.—Item 23 above refers to entry by the Department of Transport into a contract with a firm of naval architects for the preparation of plans and specifications for the construction of a tender (work boat) for the St. John's, Nfld., Marine Agency at a negotiated price of \$19,820, there being a mutual understanding that a vessel previously designed by the same architects for similar duties on the West Coast would provide the model for the design of the East Coast vessel.

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Concurrently the same naval architects were engaged on like terms and conditions to prepare plans and specifications for a work boat for the Saint John Marine Agency. Modifications requested by the Department resulted in plans for a vessel which bore so little resemblance to the West Coast vessel that the architects were requested to prepare revised detailed specifications and modified drawings. In addition, the architects were asked to prepare certain calculations not provided for in their agreement with the Department. In consequence, they were paid \$11,322 additional to the fee of \$19,820 originally agreed upon, and these payments, together with an amount for allowable incidental expenses, brought the final cost to \$31,278.

At the year-end it appeared possible that a vessel of somewhat greater capacity would be required for the Saint John Marine Agency due to considerable changes in requirements since a new work boat was first considered. The view was also held that the design was incompatible with the Department's views on living conditions and working hours for officers and crew. If these views prevail, the outlay of \$31,278 may prove to have been non-productive.

26. ADDITIONAL COST DUE TO DELAY IN TAKEOVER OF BUILDING FROM CONTRACTOR, TORONTO, ONT.—In March 1961 the Department of Transport entered into a contract for the construction of a power plant in connection with the air terminal complex at the Toronto International Airport. Although the work had been practically completed by August 1, 1962, certain work and testing of equipment could not be carried out at that time because the contract for the aeroquay to be serviced by the power plant had fallen behind schedule. The contractor maintained and protected the power plant until he was largely relieved of this responsibility seventeen weeks later. During the year he was paid an amount of \$8,224 as compensation for his costs occasioned by the delay, which brought the total cost of the work to \$2,119,000.

Summary of Assets and Liabilities

148. The Statement of Assets and Liabilities as at March 31, 1966, with comparative figures at the end of the preceding year, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General in accordance with section 64 of the Financial Administration Act, is reproduced as Exhibit 2 to this Report.

Assets

149. The following table lists the assets at March 31, 1966, by main headings in the Statement of Assets and Liabilities, in comparison with the corresponding balances at the close of the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
Current assets	\$ 1,015,994,000	\$ 1,075,383,000	\$ 1,285,615,000
Blocked currency	1,002,000	—	—
Advances to the Exchange Fund Account	2,696,000,000	2,621,000,000	2,601,000,000
Investments in special United States of America securities — Columbia River Treaty	187,192,000	219,479,000	—
Canada pension plan investment fund	34,853,000	—	—
Loans to and investments in Crown corporations	5,659,074,000	4,996,301,000	4,584,194,000
Loans to national governments	1,225,213,000	1,206,577,000	1,195,685,000
Other loans and investments	1,263,213,000	1,140,128,000	1,198,995,000
Securities held in trust	51,956,000	43,586,000	38,882,000
Deferred charges	256,555,000	208,585,000	400,361,000
Suspense accounts	—	—	141,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	12,485,876,000	11,605,863,000	11,399,697,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	\$ 11,939,492,000	\$ 11,059,479,000	\$ 10,853,313,000

150. *Current assets.* The balances included under this heading at March 31, 1966, with the comparable balances at the close of the two previous years, were:

	March 31, 1966	March 31, 1965	March 31, 1964
Cash	\$ 759,080,000	\$ 850,282,000	\$ 984,643,000
Departmental working capital advances—Agricultural Commodities Stabilization Account	5,426,000	23,152,000	63,954,000
Defence Production Revolving Fund ...	22,590,000	30,157,000	27,791,000
Bullion and coinage accounts	14,794,000	18,704,000	29,401,000
Stockpiling of uranium concentrates ..	37,070,000	24,414,000	13,537,000
Other	40,697,000	36,978,000	32,945,000
	120,577,000	133,405,000	167,628,000
Securities held for the Securities Investment Account	81,476,000	62,561,000	99,860,000
Other current assets	54,861,000	29,135,000	33,484,000
	\$ 1,015,994,000	\$ 1,075,383,000	\$ 1,285,615,000

The decrease of \$17,726,000 in the Agricultural Commodities Stabilization Account at March 31, 1966 was due mainly to the sale of accumulated stocks of butter.

The reduction of \$7,567,000 in the Defence Production Revolving Fund results largely from decreases of \$11,763,000 in progress payments and advances to suppliers offset by increases in recoverable expenditures of \$1,331,000 on the defence industry modernization program and \$1,650,000 on research and development.

The amount of \$37,070,000 for stockpiling of uranium concentrates comprises accumulated costs financed by the Department of Trade and Commerce for the acquisition, refining and stockpiling of these concentrates.

The \$81,476,000 balance of the Securities Investment Account represents, at amortized cost, temporary holdings of securities of Canada by the Minister of Finance under the authority of section 17 of the Financial Administration Act.

151. Blocked currency. The amount of \$1,002,000, on deposit in the Central Bank of Chile, was received in payments on a loan made by Export Credits Insurance Corporation to a company in Chile. The Government of Chile was unable to make available the necessary Canadian dollars for payment of the debt in Canada but has agreed to the withdrawal of funds deposited in 1965 in ten equal instalments on April 1 and October 1 in the years 1968 to 1972 and to similar withdrawals of funds deposited in 1966 in the years 1969 to 1973. Interest at 6% per annum is payable by the Central Bank of Chile on these deposits.

152. Advances to the Exchange Fund Account. This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum (\$3,500,000,000 at March 31, 1966) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, R.S., c.315. The balance of the Account at March 31, 1966 was \$2,696,000,000 and the market value of investments from advances was \$2,728,743,000, indicating an unrecorded surplus of \$32,743,000. By comparison, the unrecorded surplus at the close of the preceding year was \$32,407,000.

A summary of the transactions in the Account for the year ended December 31, 1965 is included in paragraph 234 of this Report.

153. Investments in special United States of America securities—Columbia River Treaty. These securities were acquired under authority of Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a, Appropriation Act No. 7, 1964, 1964-65, c.20, which provided for their purchase out of United States dollars paid to Canada pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin.

Securities amounting to \$30 million (U.S.) matured in November 1965 and were redeemed by the Government of the United States.

154. Canada pension plan investment fund. Uninvested funds of the Canada Pension Plan in excess of an amount estimated as required to meet all payments in the following three months are available for investment in non-negotiable provincial and federal securities. These investments at March 31, 1966 were:

Ontario	\$ 20,110,000
British Columbia	5,085,000
Alberta	3,064,000
Manitoba	2,077,000
Saskatchewan	1,432,000
Nova Scotia	1,248,000
New Brunswick	972,000
Newfoundland	655,000
Prince Edward Island	108,000
Canada	102,000
	<hr/>
	\$ 34,853,000
	<hr/>

155. Loans to and investments in Crown corporations. The following schedule shows the nature of these loans and investments at March 31, 1966:

	Capital stock at cost	Advances	Total
Central Mortgage and Housing Corporation ..\$		\$ 2,452,927,000	\$ 2,452,927,000
Canadian National Railways	1,044,350,000	449,645,000	1,493,995,000
Farm Credit Corporation		588,343,000	588,343,000
The St. Lawrence Seaway Authority		435,845,000	435,845,000
National Harbours Board		202,819,000	202,819,000
Export Credits Insurance Corporation	5,000,000	123,153,000	128,153,000
Atomic Energy of Canada Limited	15,000,000	62,593,000	77,593,000
Canadian Overseas Telecommunication Corporation		52,523,000	52,523,000
National Capital Commission, other than Greenbelt—see also below		32,108,000	32,108,000
Polymer Corporation Limited	30,000,000		30,000,000
Northern Canada Power Commission		29,865,000	29,865,000
Eldorado Mining and Refining Limited	8,247,000		8,247,000
Bank of Canada	5,920,000		5,920,000
Canadian Commercial Corporation		5,500,000	5,500,000
Canadian Arsenals Limited		5,000,000	5,000,000
Canadian Broadcasting Corporation—working capital—see also below		3,000,000	3,000,000
Canadian National Railways—re Yarmouth- Bar Harbour ferry		690,000	690,000
Canadian National (West Indies) Steamships, Limited	1,000	324,000	325,000
Canadian Patents and Development Limited	296,000		296,000
	1,108,814,000	4,444,335,000	5,553,149,000
Recovery likely to require parliamentary appropriations—			
Canadian Corporation for the 1967 World Exhibition		44,000,000	44,000,000
National Capital Commission—Greenbelt		35,221,000	35,221,000
Canadian Broadcasting Corporation		26,704,000	26,704,000
		105,925,000	105,925,000
	<hr/>	<hr/>	<hr/>
	\$ 1,108,814,000	\$ 4,550,260,000	\$ 5,659,074,000
	<hr/>	<hr/>	<hr/>

The total of \$5,659,074,000, an increase of \$662,773,000 over the previous year, does not represent the total equity of the Government of Canada in its Crown corporations at March 31, 1966. This equity in fact amounted to \$7,217,559,000 as shown by their individual financial statements published in Volume III of the Public Accounts and as summarized in Appendix 12 on page 9.25 of Volume I of the Public Accounts. The principal reason for this is that the accounts of Canada are maintained on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of certain capital assets which were charged to expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. The corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice and a number have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year.

Advances to Central Mortgage and Housing Corporation, made pursuant to section 22(1) of the Central Mortgage and Housing Corporation Act, R.S., c.46, increased by \$315 million resulting from additional advances of: \$403 million for loans to approved borrowers, less repayments of \$156 million; \$80 million less repayments of \$30 million in respect of projects entered into with provinces, municipalities and universities; and \$18 million for the purpose of making loans to holders of National Housing Act insured mortgages.

The total for the Canadian National Railways reflects an increase of \$60 million due to a further investment of \$24 million in 4% preferred stock of the Company pursuant to section 12 of the Canadian National Railways Financing and Guarantee Act, 1964, 1964-65, c.41, an increase of \$35 million under section 7 of the Canadian National Railways Refunding Act, 1955, 1955, c.31, and an increase of \$.7 million in temporary loans required by Air Canada.

The amount for Farm Credit Corporation shows an increase of \$147 million over the preceding year due largely to further loans of \$161 million, less repayments of \$21 million under the Farm Credit Act, 1959, c.43, and \$5.8 million paid to the Corporation under section 12 of the Act as additional capital.

The amount shown for The St. Lawrence Seaway Authority reflects an increase of \$27 million. This comprises a net increase of \$6.4 million in deferred interest on loans, additional interest-free loans totalling \$19 million made during the year, and temporary interest-free loans of \$9.2 million less repayments of \$8.2 million in respect of the Welland Canal deficit.

The amount shown for Export Credits Insurance Corporation reflects an increase of \$36 million in advances to enable the Corporation to provide long-term financing of export sales of capital goods and services.

There was an increase of \$12 million in advances to Atomic Energy of Canada Limited for the construction of: the Douglas Point generating station, \$5.8 million;

Pickering generating station, \$2.4 million; Sheridan Park engineering office, \$2 million; and housing, \$1.7 million.

Loans to the National Capital Commission for the purpose of acquiring property in the National Capital Region other than in the Greenbelt increased by \$6.1 million.

Loans to the Canadian Corporation for the 1967 World Exhibition were authorized by Vote L26b, Appropriation Act No. 2, 1966, 1966-67, c.3. The amount authorized was \$80 million of which \$44 million had been advanced at March 31, 1966. Repayment of the loans will be dependent on parliamentary appropriations in future years.

Loans to the National Capital Commission for the purpose of acquiring property in the Greenbelt increased by \$1.4 million. Repayment of these loans may be dependent on parliamentary appropriations in future years.

The financing of the capital requirements of the Canadian Broadcasting Corporation continued to be by means of loans and advances. Additional advances, under the authority of Vote L10, Appropriation Act No. 2, 1966, totalled \$12.5 million (net) and are to be repaid by equal annual instalments over a twenty-year period from parliamentary appropriations provided for the Canadian Broadcasting Corporation.

156. Loans to national governments. The following is a listing of the balances of these loans at March 31, 1966 in comparison with the balances at the close of the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
United Kingdom	\$ 1,078,088,000	\$ 1,058,863,000	\$ 1,039,277,000
France	67,600,000	67,600,000	67,600,000
Netherlands	32,130,000	32,130,000	32,130,000
Belgium	25,377,000	27,684,000	29,991,000
India	6,366,000	8,638,000	10,021,000
Other countries	5,930,000	974,000	1,263,000
	<hr/> 1,215,491,000	<hr/> 1,195,889,000	<hr/> 1,180,282,000
Recovery likely to require parliamentary appropriations—			
India—for the purchase of wheat and flour	9,722,000	10,688,000	15,403,000
	<hr/> \$ 1,225,213,000	<hr/> \$ 1,206,577,000	<hr/> \$ 1,195,685,000

The 1965 annual instalment of principal and interest on the loan to the United Kingdom was deferred by the United Kingdom in accordance with the provisions of the United Kingdom Financial Agreement Act, 1946, 1946, c. 12. The increase in the indebtedness at March 31, 1966 results from the addition of interest of \$19,225,000. No payments were due from France and the Netherlands during the year because of special payments made in 1962-63.

The item "Other countries" includes special assistance loans during the year to four developing countries totalling \$5,256,000. Three of these loans bear interest at the rate of $\frac{3}{4}$ of 1% and are repayable over a period of 50 years.

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157. Other loans and investments. The balances comprising this asset item at March 31, 1966 with the comparable balances at the end of the two previous years were:

	March 31, 1966	March 31, 1965	March 31, 1964
Subscriptions to capital of, and working capital advances and loans to, international organizations	\$ 724,695,000	\$ 709,754,000	\$ 702,130,000
Veterans' Land Act Fund	278,842,000	256,408,000	244,505,000
Less: Reserve for conditional benefits	22,651,000	24,339,000	26,357,000
	256,191,000	232,069,000	218,148,000
Municipal Development and Loan Board advances	115,491,000	9,474,000	—
Less: Reserve for forgiveness of indebtedness	6,633,000	1,837,000	—
	108,858,000	7,637,000	—
Loans to provincial governments	96,723,000	98,436,000	113,652,000
Housing projects for the Canadian Forces	20,560,000	20,386,000	17,930,000
Government of the Yukon Territory	8,540,000	6,855,000	6,174,000
Government of the Northwest Territories	6,418,000	3,885,000	3,218,000
Assisted passage scheme	6,387,000	3,681,000	2,741,000
Government equity in the agency account of Crown Assets Disposal Corporation	5,004,000	5,522,000	5,173,000
Temporary loans to Old Age Security Fund	—	24,954,000	99,960,000
Other balances	25,629,000	23,103,000	26,154,000
	1,259,005,000	1,136,282,000	1,195,280,000
Recovery likely to require parliamentary appropriations—			
Capital assistance loans, Town of Oro-mocto, New Brunswick	4,208,000	3,846,000	3,715,000
	\$ 1,263,213,000	\$ 1,140,128,000	\$ 1,198,995,000

The following is a listing of the balances comprising the \$724,695,000 shown for the first item in the above table at March 31, 1966:

Subscriptions to capital—	
International Monetary Fund	\$ 577,250,000
International Bank for Reconstruction and Development	80,483,000
International Development Association	55,695,000
International Finance Corporation	3,522,000
	716,950,000
Working capital advances and loans	7,745,000
	\$ 724,695,000

During the year Canada subscribed an additional \$15 million to the capital of the International Development Association.

The Veterans' Land Act Fund was created during the year pursuant to an amendment (1965, c.19) to the Veterans' Land Act, R.S., c.280. It replaces the Veterans' Land Act Advances account and the Veterans' Land Act Housing account. The increase of \$24,122,000 in the Fund, after providing a reserve for conditional benefits, is mainly due to additional advances of \$45,109,000 for the purchase of property, less repayments of \$22,530,000.

The Municipal Development and Loan Board advances were made, pursuant to the Municipal Development and Loan Act, 1963, c.13, to provide financial assistance to augment or accelerate municipal capital works programs. The Act provides for the forgiveness of 25% of the principal amount of a loan where the municipal project in respect of which the loan was extended was completed to the satisfaction of the Municipal Development and Loan Board on or before September 30, 1966 and 25% of the amount advanced, where the project was not completed at that date. At March 31, 1966 advances with respect to projects not completed amounted to \$26,532,000 and accordingly a reserve of 25% or \$6,633,000 was established to cover the portion of advances to be forgiven.

The loans to provincial governments at March 31, 1966 with the comparable balances at the end of the two previous years were:

	March 31, 1966	March 31, 1965	March 31, 1964
Saskatchewan	\$ 29,995,000	\$ 28,461,000	\$ 27,231,000
New Brunswick	29,048,000	32,788,000	34,371,000
British Columbia	11,239,000	12,537,000	15,501,000
Manitoba	10,002,000	10,708,000	11,643,000
Nova Scotia	7,043,000	7,139,000	7,230,000
Alberta	5,871,000	6,310,000	6,743,000
Newfoundland	3,525,000	493,000	498,000
Provincial Tax Collection Agreements Account	—	—	10,435,000
	<u>\$ 96,723,000</u>	<u>\$ 98,436,000</u>	<u>\$ 113,652,000</u>

158. Securities held in trust. The amount of \$51,956,000 shown under this heading represents securities held for the following accounts: guarantee deposits in respect of oil and gas permits, \$30,330,000; guarantee deposits in respect of customs duties and excise taxes, \$5,388,000; Canadian vessel construction assistance, \$5,240,000; pilots' pension funds, \$5,114,000; contractors' securities, \$3,688,000; and other, \$2,196,000.

159. Deferred charges. The balances included under this heading at March 31, 1966 with the comparable balances at the close of the two previous years were:

	March 31, 1966	March 31, 1965	March 31, 1964
Unamortized portion of actuarial deficiencies—			
Public Service Superannuation Account ..	\$ 93,621,000	\$ 39,921,000	\$ 276,661,000
Canadian Forces Superannuation Account ..	53,601,000	53,762,000	—
Royal Canadian Mounted Police Super- annuation Account	3,115,000	4,153,000	—
	<u>150,337,000</u>	<u>97,836,000</u>	<u>276,661,000</u>
Unamortized loan flotation costs	106,218,000	110,749,000	123,700,000
	<u>\$ 256,555,000</u>	<u>\$ 208,585,000</u>	<u>\$ 400,361,000</u>

The relative statutes provide that the amounts of special credits to the superannuation accounts (set up as "Deferred charges—Unamortized portion of actuarial deficiencies") shall be charged to the Consolidated Revenue Fund in five equal annual instalments.

The item "Unamortized loan flotation costs" records the unamortized portion of discounts and commissions paid on the issuance of loans. The following is a summary of the transactions for the year:

Balance, April 1, 1965	\$ 110,749,000
Add:	
Discount and commissions on new loans	32,724,000
Discount and commissions on additional issues of existing loans	6,697,000
	<hr/> 150,170,000
Deduct:	
Amortization charges included in 1965-66 expenditure	43,952,000
Balance, March 31, 1966	<hr/> <u>\$ 106,218,000</u>

160. Inactive loans and investments. The \$94,824,000 shown for this item at March 31, 1966, unchanged from the two previous years, comprised the following balances:

Loan to China in 1946, under the Export Credits Insurance Act	\$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada	24,329,000
Balance arising out of implementation of guarantee, given under the Export Credits Insurance Act, of loans by chartered banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)	14,470,000
Loans to Greece in 1919 for the purchase of goods produced in Canada	6,525,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain (last payment received in 1959-60)	74,000
	<hr/> <u>\$ 94,824,000</u>

Liabilities

161. The following table lists the liabilities at March 31, 1966 by main headings in the Statement of Assets and Liabilities in comparison with the balances at the close of the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
Current and demand liabilities	\$ 1,398,836,000	\$ 1,432,616,000	\$ 1,619,692,000
Deposit and trust accounts	310,729,000	262,837,000	196,454,000
Annuity, insurance and pension accounts ..	6,392,133,000	5,675,841,000	5,131,054,000
Undisbursed balances of appropriations to special accounts	101,945,000	95,703,000	111,601,000
Deferred credits	138,119,000	113,208,000	119,447,000
Suspense accounts	31,391,000	5,532,000	5,118,000
Unmatured debt	19,109,787,000	18,978,214,000	18,740,097,000
	<hr/> <u>\$ 27,482,940,000</u>	<hr/> <u>\$ 26,563,951,000</u>	<hr/> <u>\$ 25,923,463,000</u>

162. Current and demand liabilities. The balances comprising this item in the Statement at March 31, 1966, in comparison with the balances at the close of the two previous years, were:

	March 31, 1966	March 31, 1965	March 31, 1964
Accounts payable	\$ 380,309,000	\$ 363,925,000	\$ 342,673,000
Outstanding treasury cheques	332,860,000	315,077,000	319,625,000
Non-interest-bearing notes payable to the International Monetary Fund and the International Development Association..	255,388,000	367,898,000	586,996,000
Interest accrued	254,292,000	231,173,000	215,973,000
Interest due	110,931,000	102,034,000	91,894,000
Matured debt	27,325,000	19,141,000	26,820,000
Other	37,731,000	33,368,000	35,711,000
	<u>\$ 1,398,836,000</u>	<u>\$ 1,432,616,000</u>	<u>\$ 1,619,692,000</u>

The amounts shown for "Accounts payable" are the totals of charges pertaining to the year for which cheques were issued in April of the following fiscal year.

Non-interest-bearing notes payable to the International Monetary Fund (\$233 million) and the International Development Association (\$22 million) are those portions of Canada's quotas of the capital of these international agencies which are not covered by cash or gold.

163. Deposit and trust accounts. The following is a listing of the balances included in this item at March 31, 1966 in comparison with the balances at the close of the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
Provincial tax collection agreements	\$ 66,320,000	\$ 48,797,000	\$ —
Guarantee deposits	39,634,000	34,742,000	27,375,000
Indian trust funds	32,051,000	31,109,000	29,167,000
Deposits by Crown corporations	30,416,000	27,473,000	14,340,000
Post Office Savings Bank	22,024,000	23,255,000	24,605,000
National Harbours Board	21,627,000	13,560,000	13,320,000
Canadian Pension Commission (Administration trust fund)	15,160,000	14,489,000	13,490,000
Instalment purchase of bonds by public service employees	13,568,000	13,257,000	12,535,000
Contractors' holdbacks	10,361,000	8,802,000	8,604,000
Veterans' Land Act trust account	7,041,000	4,496,000	4,288,000
Canadian vessel construction assistance ...	6,982,000	478,000	246,000
Army Benevolent Fund	5,385,000	5,560,000	5,779,000
Contractors' security deposits	5,254,000	6,028,000	7,961,000
Permanent services deferred pay	3,464,000	3,434,000	3,747,000
Northwest Territories revenue account	3,417,000	2,683,000	2,356,000
Prairie Farm Emergency Fund	3,295,000	—	—
Other	24,730,000	24,674,000	28,641,000
	<u>\$ 310,729,000</u>	<u>\$ 262,837,000</u>	<u>\$ 196,454,000</u>

AUDITOR GENERAL'S REPORT

The Federal Government collects provincial income taxes from persons on behalf of all provinces except Quebec and from corporations on behalf of all provinces except Ontario and Quebec. At March 31, 1966 collections had exceeded remittances by \$66,320,000. In the preceding year collections exceeded remittances by \$48,797,000, but in 1963-64 remittances exceeded collections by \$10,435,000 and this amount was included in "Loans to provincial governments" in that year.

The increase of \$4,892,000 in the balance for "Guarantee deposits" was largely due to amounts deposited with the Department of Northern Affairs and National Resources as guarantees in connection with oil and mineral rights and licences.

The increase of \$2,943,000 in "Deposits by Crown corporations" is due mainly to additional deposits of \$3,976,000 by Export Credits Insurance Corporation, offset by a withdrawal of \$1,200,000 by Eldorado Mining and Refining Limited.

The balance in "Post Office Savings Bank", \$22,024,000, is the amount on deposit in 298,615 depositors' accounts—a reduction of \$1,231,000 and 1,124 accounts during the year. Interest is paid on deposits at a rate of $2\frac{1}{2}\%$ per annum.

The increase of \$8,067,000 on deposit by the National Harbours Board at March 31, 1966 resulted from a change in policy whereby the Board deposits reserve funds in the Consolidated Revenue Fund rather than investing in securities.

The increase of \$2,545,000 in the Veterans' Land Act trust account was mainly due to increased initial payments deposited by veterans pending approval of sales, following authorization on June 30, 1965 of an increase in the maximum individual amount which may be loaned.

Under the terms of the Canadian Vessel Construction Assistance Act, R.S., c. 43, owners of vessels who claimed special depreciation allowances under the Income Tax Act may at the time of disposal of a vessel deposit the amount of tax on recaptured depreciation with the Canadian Maritime Commission. In the event of a purchase of a new vessel within seven years under certain conditions, such deposit may be returned to the owners. During the year \$12,022,000 was deposited to this account and \$5,518,000 was returned to the owners.

The Prairie Farm Assistance Act, R.S., c. 213, imposes a levy of 1% on the price of grain purchased by licensees under the Canada Grain Act and the moneys collected are credited to the Prairie Farm Emergency Fund. Awards are made to eligible farmers in areas affected by crop failures in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During 1965-66 credits to the Fund totalled \$10,338,000 while awards totalled \$7,043,000 resulting in a surplus of \$3,295,000. In 1964-65 there was a deficit of \$367,000 which was charged to an appropriation provided by Parliament for the purpose.

The \$22,197,000 shown for "Other" balances at March 31, 1966 represents the total of 89 balances including: Veterans' Care trust fund, \$2,974,000; common school funds, \$2,678,000; Emergency Gold Mining Assistance holdbacks, \$2,297,000; National Research Council special fund, \$2,228,000; and the immigration guarantee fund, \$1,553,000.

SUMMARY OF ASSETS AND LIABILITIES

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164. *Annuity, insurance and pension accounts.* The balances making up this item at March 31, 1966, in comparison with the corresponding balances at the close of the two previous years, are given in the following table:

	March 31, 1966	March 31, 1965	March 31, 1964
Public Service Superannuation Account	\$ 2,390,383,000	\$ 2,161,828,000	\$ 1,856,408,000
Canadian Forces Superannuation Account ..	2,184,210,000	2,028,123,000	1,821,525,000
Royal Canadian Mounted Police Superannuation Account	65,411,000	57,707,000	45,987,000
Government Annuities Account	1,317,080,000	1,303,137,000	1,284,262,000
Canada Pension Plan Account	89,406,000	—	—
Old Age Security Fund	216,983,000	—	—
Other	128,660,000	125,046,000	122,872,000
	<u>\$ 6,392,133,000</u>	<u>\$ 5,675,841,000</u>	<u>\$ 5,131,054,000</u>

The transactions during the year ended March 31, 1966 in each of the three superannuation accounts are summarized as follows:

Public Service Superannuation Account

Balance, April 1, 1965		\$ 2,161,828,000
Add:		
Interest	\$ 89,499,000	
Actuarial adjustment—Contra—"deferred charges" account	79,600,000	
Contributions by participants	66,725,000	
Contributions by the Government	61,458,000	
Other credits	1,180,000	
		<u>298,462,000</u>
		2,460,290,000
Deduct:		
Annuity payments	57,674,000	
Withdrawals of contributions	11,317,000	
Other charges	916,000	
		<u>69,907,000</u>
Balance, March 31, 1966		<u>\$ 2,390,383,000</u>

Canadian Forces Superannuation Account

Balance, April 1, 1965		\$ 2,028,123,000
Add:		
Interest	\$ 83,252,000	
Contributions by the Government	58,790,000	
Contributions by participants	34,053,000	
Actuarial adjustment—Contra—"deferred charges" account ..	16,600,000	
Other credits	338,000	
		<u>193,033,000</u>
		2,221,156,000
Deduct:		
Annuity payments	26,748,000	
Gratuities and withdrawal allowances	10,130,000	
Other charges	68,000	
		<u>36,946,000</u>
Balance, March 31, 1966		<u>\$ 2,184,210,000</u>

AUDITOR GENERAL'S REPORT

Royal Canadian Mounted Police Superannuation Account

Balance, April 1, 1965		\$ 57,707,000
Add:		
Contributions by the Government	\$ 3,862,000	
Interest	2,421,000	
Contributions by participants	2,252,000	
Contributions by Newfoundland	17,000	
		8,552,000
		<u>66,259,000</u>
Deduct:		
Annuities and allowances payments	509,000	
Termination payments	326,000	
Other charges	13,000	
		848,000
		<u>\$ 65,411,000</u>
Balance, March 31, 1966		

The following is a summary of the transactions in the Government Annuities Account during the past three years:

	Year ended March 31		
	1966	1965	1964
Balance at beginning of year	\$ 1,303,137,000	\$ 1,284,262,000	\$ 1,264,436,000
Interest	50,048,000	49,180,000	48,383,000
Premiums	27,619,000	30,162,000	29,413,000
Sundry adjustments	6,000	10,000	—
	<u>1,380,810,000</u>	<u>1,363,614,000</u>	<u>1,342,232,000</u>
Vested annuity and commuted value payments and refunds	62,228,000	59,782,000	57,092,000
Transfer to revenue of the excess over actuarial value of outstanding contracts	1,502,000	695,000	878,000
	<u>63,730,000</u>	<u>60,477,000</u>	<u>57,970,000</u>
Balance at March 31	<u>\$ 1,317,080,000</u>	<u>\$ 1,303,137,000</u>	<u>\$ 1,284,262,000</u>

The following is a summary of the transactions in the Canada Pension Plan Account during the year ended March 31, 1966:

Contributions from employers and employees	\$ 94,880,000	
Interest	37,000	
		\$ 94,917,000
Deduct:		
Administrative expense		5,511,000
Balance, March 31, 1966		<u>\$ 89,406,000</u>

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The following is a summary of the transactions in the Old Age Security Fund during the past three years:

	1966	Year ended March 31	
		1965	1964
Collections of tax—			
On sales	\$ 522,086,000	\$ 383,150,000	\$ 331,760,000
On personal incomes	494,900,000	431,900,000	302,600,000
On corporation incomes	152,250,000	145,250,000	115,750,000
	<u>1,169,236,000</u>	<u>960,300,000</u>	<u>750,110,000</u>
Payments of pensions under the Old Age Security Act	927,299,000	885,294,000	808,391,000
Surplus (deficiency) for the year	241,937,000	75,006,000	(58,281,000)
Preceding year's balance brought forward .	(24,954,000)	(99,960,000)	(41,679,000)
Surplus (deficit) at March 31	<u>\$ 216,983,000</u>	<u>\$ (24,954,000)</u>	<u>\$ (99,960,000)</u>

The following is a listing of the major items included in "Other" balances, with the balances for the previous two years shown for comparative purposes:

	March 31, 1966	March 31, 1965	March 31, 1964
Veterans' Insurance Fund	\$ 30,123,000	\$ 29,027,000	\$ 27,601,000
Civil Service Insurance Fund	24,218,000	24,289,000	24,239,000
Canadian Regular Forces Death Benefit Account .	16,717,000	15,010,000	13,240,000
Unemployment Insurance Fund	13,571,000	14,282,000	16,796,000
Returned Soldiers' Insurance Fund	12,115,000	12,707,000	13,295,000
Public Service Death Benefit Account	11,197,000	9,876,000	8,612,000
Royal Canadian Mounted Police Dependents' Pension Fund	7,663,000	7,369,000	6,916,000
Public Service Retirement Fund	5,185,000	5,576,000	6,007,000
Pilots' pension funds	5,214,000	4,699,000	4,247,000
Members of Parliament Retiring Allowances Account	2,075,000	1,920,000	1,671,000
Sundry	582,000	291,000	248,000
	<u>\$ 128,660,000</u>	<u>\$ 125,046,000</u>	<u>\$ 122,872,000</u>

The transactions during the year ended March 31, 1966 in the Members of Parliament Retiring Allowances Account are summarized as follows:

Balance, April 1, 1965		\$ 1,920,000
Add:		
Contributions by participants	\$ 238,000	
Contributions by the Government	196,000	
Interest	80,000	
		<u>514,000</u>
		2,434,000
Deduct:		
Annual allowances	286,000	
Withdrawal allowances	73,000	
		<u>359,000</u>
Balance, March 31, 1966		<u>\$ 2,075,000</u>

AUDITOR GENERAL'S REPORT

165. Undisbursed balances of appropriations to special accounts. The following is a listing of the balances included in this item at March 31, 1966 in comparison with the balances at the close of the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
International Development Assistance Fund ...	\$ 78,680,000	\$ 82,245,000	\$ —
Railway Grade Crossing Fund	11,005,000	6,865,000	17,649,000
Centennial of Confederation Fund	10,555,000	6,024,000	3,000,000
National Capital Fund	1,626,000	426,000	6,426,000
Colombo Plan Fund	—	—	84,451,000
Other	79,000	143,000	75,000
	<u>\$ 101,945,000</u>	<u>\$ 95,703,000</u>	<u>\$ 111,601,000</u>

The International Development Assistance Fund was established under authority of Department of External Affairs Vote 33d, Appropriation Act No. 2, 1965, 1964-65, c. 50. The Vote also authorized the transfer to this Fund of the unexpended balance of the Colombo Plan Fund. The Fund provides for payments of economic, technical and educational assistance to developing countries and for certain administrative expenses. Expenditure during 1965-66 totalled \$35,532,000. Under authority of Department of External Affairs Vote 35e, Appropriation Act No. 4, 1966, 1966-67, c. 6, the Fund was credited during the year with \$31,967,000, this being the unexpended balance of the sub-vote for International Development Assistance within Department of External Affairs Vote 35.

Amounts of \$5,000,000 provided under section 265 of the Railway Act, R.S., c. 234, and \$9,000,000 provided under Department of Transport Vote 82 were credited to the account for the Railway Grade Crossing Fund during 1965-66. Expenditure totalling \$9,860,000 was incurred in aiding in the cost of installing protective devices at railway grade crossings, grade separations, and reflective markings on the sides of railway cars.

An amount of \$9,000,000 provided by Secretary of State Vote 35 was credited to the Centennial of Confederation Fund, while expenditure of \$4,469,000 was charged thereto.

An amount of \$12,100,000, provided by Department of Public Works Vote 65, was credited to the National Capital Fund and the Fund was charged with payments to the National Capital Commission totalling \$10,900,000 to finance the cost of capital projects approved by the Governor in Council.

166. Deferred credits. The following is an analysis of this item at the close of the 1965-66 fiscal year and the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946	\$ 82,985,000	\$ 63,761,000	\$ 44,174,000
Deferred interest on loans to The St. Lawrence Seaway Authority	45,145,000	38,724,000	63,761,000
Equity in agency account of Crown Assets Disposal Corporation	5,004,000	5,522,000	5,173,000
Credits arising from the recording of agreements of sale of Crown assets	1,355,000	2,991,000	4,702,000
Unamortized premium on loans	1,157,000	—	—
Other balances	2,473,000	2,210,000	1,637,000
	<u>\$ 138,119,000</u>	<u>\$ 113,208,000</u>	<u>\$ 119,447,000</u>

The increase in the item "Deferred interest on loans made under the United Kingdom Financial Agreement Act, 1946" resulted from the Government of the United Kingdom exercising its option, for the second time since 1957, to defer the annual instalment of principal and interest on the loans.

The St. Lawrence Seaway Authority paid \$9,399,000 on account of interest previously deferred, while payment of interest for the year 1965, amounting to \$15,820,000, was in turn deferred. This deferred interest is payable by the Authority over a 43-year period commencing in 1967, along with repayments of principal.

The unamortized premium on loans relates to two short-term loans, maturing on April 1, 1969 and October 1, 1969, for which bonds were issued during the year at a premium of \$1,337,000. This premium was amortized to the extent of \$180,000, the amortization being credited to interest on the public debt. The balance is to be amortized over the remaining life of the bonds.

167. *Suspense accounts.* This item showed an increase of \$25,859,000 over the previous year due largely to the setting up for the first time of a provision of \$14,972,000 for the premium payable on Canada Savings Bonds maturing November 1, 1968. The amount of the bonds which will be outstanding at that time is estimated at \$700 million and the premium payable at \$21 million. This premium has been apportioned on a time basis and the part attributable to the period November 1, 1959 (the date of issue of the bonds) to March 31, 1966, and which was charged to expenditure in the year, amounted to \$14,972,000. The balance of \$6,028,000 will be provided in equal monthly instalments up to the date of maturity. Also included under this heading is an amount of \$9,073,000 received from sales of surplus buildings, materials, etc., and credited to a special account in accordance with Department of National Defence Vote 48, Appropriation Act No. 2, 1966, 1966-67, c. 3; and balances of \$1,443,000 in a Department of Public Works special account, being the unapplied portion of the contribution of the City of Montreal towards the cost of an ice control structure, \$1,202,000 in the Unclaimed Cheques account, \$837,000 in the Hospital Insurance-Outside Canada account, and \$634,000 in the National Defence Replacement of Materiel account. In 1965-66 the proceeds of sales of materiel to other countries, totalling \$1,102,000, were credited to the Replacement of Materiel account pursuant to section 11 of the National Defence Act, R.S., c. 184, while \$1,034,000 for procurement of replacement materiel was charged to the account.

168. *Unmatured debt.* A summary of the unmaturred debt outstanding at March 31, 1966, in comparison with balances outstanding at the close of the two previous years, is as follows:

	March 31, 1966	March 31, 1965	March 31, 1964
Bonds—			
Payable in Canada	\$ 16,588,787,000	\$ 16,461,809,000	\$ 16,133,692,000
Payable in New York	371,000,000	376,405,000	376,405,000
	<i>16,959,787,000</i>	<i>16,838,214,000</i>	<i>16,510,097,000</i>
Treasury bills (not exceeding 180 days) .	2,150,000,000	2,140,000,000	2,230,000,000
	<u>\$ 19,109,787,000</u>	<u>\$ 18,978,214,000</u>	<u>\$ 18,740,097,000</u>

The increase of \$126,978,000 in the bonds payable in Canada is the amount by which new borrowings of \$2,614,370,000 exceeded redemptions of \$2,487,392,000. Canada Savings Bonds accounted for \$920,269,000 of the new borrowings and \$739,502,000 of the redemptions.

Issues payable in New York were valued at the official parity rate of \$1 U.S.= \$1.08108 Canadian.

It has always been the practice to include treasury bills and bonds maturing within the ensuing fiscal year in the amount shown for "Unmatured debt" along with issues maturing at later dates. In addition to treasury bills of \$2,150 million shown in the above table as maturing within 180 days, the following issues, all payable in Canada, fall due in 1966-67:

Loan of 1965-66, due May 1, 1966	\$ 325,000,000
Ninth Victory Loan 1945-66, due September 1, 1966	245,202,000
Loan of 1965-66, due September 1, 1966	205,000,000
Canada Savings Bonds 1954-66, due November 1, 1966	23,837,000
Loan of 1961-66, due December 15, 1966	175,000,000
Loan of 1963/64-66, due December 15, 1966	125,000,000
Loan of 1965-66, due December 15, 1966	150,000,000
	<hr/>
	\$ 1,249,039,000
	<hr/>

Net Debt

169. With the Liabilities amounting to \$27,482,940,000 (paragraph 161) and the Assets to \$11,939,492,000 (paragraph 149), the Net Debt at March 31, 1966 was \$15,543,448,000. The following is an analysis of the Net Debt Account for the year:

Balance, April 1, 1965	\$ 15,504,473,000
Deficit for the year—	
Expenditure	\$ 7,734,795,000
Revenue	7,695,820,000
	<hr/>
	38,975,000
	<hr/>
Balance, March 31, 1966	\$ 15,543,448,000
	<hr/>

Contingent Liabilities

170. A note on the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities at the year-end and refers to page 7.84 of the Public Accounts (Volume I) where details are to be found.

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The following is a summary of the main contingent liabilities with determinate amounts outstanding at March 31, 1966 in comparison with the corresponding amounts at the close of the two previous years:

	March 31, 1966	March 31, 1965	March 31, 1964
Insured loans made by approved lenders under the National Housing Act, 1954 ...	\$ 5,321,621,000	\$ 4,949,864,000	\$ 4,499,000,000
Railway securities guaranteed as to principal and interest	1,331,548,000	1,368,298,000	1,377,611,000
Deposits maintained by the chartered banks in the Bank of Canada	1,031,322,000	897,218,000	840,037,000
Guarantees under Export Credits Insurance Act, Part 1	508,213,000	468,644,000	378,096,000
Loans made by chartered banks to the Canadian Wheat Board	232,037,000	169,770,000	151,313,000
Other contingent liabilities of determinate amount	227,994,000	112,248,000	82,217,000
	<u>\$ 8,652,735,000</u>	<u>\$ 7,966,042,000</u>	<u>\$ 7,328,274,000</u>

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to 1954.

Comments on Assets and Liabilities

171. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

172. The Statement of Assets and Liabilities as at March 31, 1966 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditure as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. The Public Accounts Committee, which holds the view that outlays on property in the Greenbelt are expenditures of the Crown rather than income-producing investments, has on two occasions requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis (see Appendix 1, item 19).

A further major exception to the policy was introduced in 1964-65 when, as was pointed out in paragraph 55 of our 1965 Report, the funds required by the Canadian

Broadcasting Corporation to meet its capital expenditures during the year ended March 31, 1965 were provided by means of loans instead of grants as in the past. Paragraph 54 of this Report outlines the extent to which this practice has been continued.

Another major exception to this policy was made in 1965-66 when the grants provided to the Canadian Corporation for the 1967 World Exhibition became exhausted and Parliament was asked to approve of loans to the Corporation rather than additional grants although it was obvious at the time, because of the deficit forecast for the Corporation, that a substantial portion of the loans could never be repaid.

In its Seventh Report 1966 presented to the House on October 26, 1966 the Public Accounts Committee stated that it was disturbed to learn that not only was no review undertaken by the Department in the case of the National Capital Commission but that the practice was continued and further extended in 1964-65 when the House was asked to approve loans to the Canadian Broadcasting Corporation. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada" (see Appendix 1, item 41).

With respect to the financing of the Canadian Corporation for the 1967 World Exhibition, the Committee included the following in its Seventh Report:

The Committee recommends that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directs the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of \$143 million (less \$40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada. (See Appendix 1, item 42.)

Under the policy outlined at the beginning of this section the cost of government buildings and other public works undertaken by government departments is charged to expenditure at the time of acquisition or construction because the departments are dependent on public revenues for their capital needs. The two Crown corporations referred to above are also dependent on public revenues for their capital needs. The Canadian Corporation for the 1967 World Exhibition is similarly dependent on public revenues to cover the cost of its residual assets estimated at \$60 million and its anticipated deficit of \$83 million (see also paragraph 56).

173. Accounts receivable. Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the accounts receivable of each department at March 31, in comparison with the corresponding total at the close of the preceding year, is given in the several departmental sections of Volume II of the Public Accounts.

AUDITOR GENERAL'S REPORT

A summary of the accounts receivable totals by departments is included as Appendix 13 on page 9.26 of Volume I of the Public Accounts. This summary shows a total of \$292,424,000 receivable at March 31, 1966 of which \$1,127,000 is shown as uncollectable. The comparable figures for the previous year were \$264,521,000 and \$1,001,000 respectively. Uncollectable accounts of the Department of National Revenue amounting to some \$43,562,000 at March 31, 1966 have not been segregated in the summary.

The accounts receivable totals reported as at March 31, 1966 were the amounts remaining after certain uncollectable debts

- (a) of \$1,000 or less had been deleted from the accounts under authority of section 23 of the Financial Administration Act, and
- (b) in excess of \$1,000 had been written off under authority of Department of Finance Vote 16e, Appropriation Act No. 4, 1966, 1966-67, c. 6.

A summary of these deletions by departments follows:

Department	Items	Deleted under authority of		
		F.A. Act, section 23	Finance Vote 16e	Total deleted
Agriculture	2	\$ 991	\$ 14,996	\$ 15,987
Finance	107	27,332	2,543	29,875
Labour	470	17,402		17,402
National Defence	450	53,801	27,367	81,168
National Revenue—				
Customs and Excise Division	831	117,218	868,695	985,913
Taxation Division	9,012	550,766		550,766
Northern Affairs and National Resources.	298	10,096	4,789	14,885
Post Office	3	252	8,443	8,695
Transport	110	2,888	26,334	29,222
Veterans Affairs	570	138,082	111,085	249,167
Other	682	19,376	11,566	30,942
	<u>12,535</u>	<u>\$ 938,204</u>	<u>\$ 1,075,818</u>	<u>\$ 2,014,022</u>

In our 1965 Report we drew attention to the fact that some departments were not keeping their accounts receivable records accurately and efficiently in that they were not maintaining controlling accounts or providing for an effective verification of the accounts by officers other than those responsible for keeping them. We also reported that the Treasury Board was in the process of developing a policy with respect to revenue control designed to eliminate the conditions referred to by the Auditor General, the Public Accounts Committee (in its Sixth Report 1964) and by the Royal Commission on Government Organization. The Treasury Board policy was not completely developed until early in 1966-67. Thus the weaknesses in internal control continued throughout the year.

Included in the accounts receivable were amounts totalling \$746,000 representing intra- and inter-departmental accounts which should have been settled before the books were closed for the year. The accounts had not been settled because of

- (1) delays by creditor departments in submitting billings,

- (2) delays by debtor departments in processing invoices, and
- (3) insufficient funds in various departmental appropriations.

174. Accounts receivable—Department of National Revenue. Of \$292 million of accounts receivable at March 31, 1966, \$255 million was applicable to the Department of National Revenue. With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department, analyses have been prepared showing the nature and amounts of the unpaid accounts of these Divisions.

CUSTOMS AND EXCISE DIVISION.—The following is a summary of the accounts receivable of this Division at March 31, 1966 with comparable amounts at the close of the previous year:

	March 31, 1966	March 31, 1965
Collectable—		
Excise tax	\$ 12,673,000	\$ 11,381,000
Duties and taxes on importations	11,990,000	1,227,000
Customs seizures	686,000	531,000
Investigations	162,000	197,000
Sundry	1,000	2,000
	<u>25,512,000</u>	<u>13,338,000</u>
Uncollectable—		
Excise tax	870,000	1,022,000
Duties and taxes on importations	204,000	166,000
Customs seizures	46,000	47,000
Investigations	—	3,000
Sundry	4,000	4,000
	<u>1,124,000</u>	<u>1,242,000</u>
	<u>\$ 26,636,000</u>	<u>\$ 14,580,000</u>

The amount of \$11,990,000 shown above for duties and taxes on importations includes an estimated \$10.2 million owing by motor vehicle manufacturers because of failure to fully comply with conditional agreements (see also paragraph 106). The uncollectable amount of \$204,000 shown under this category is the result of errors made requiring the passing of amending entries, and of tourist exemptions claimed but later disallowed because of an exemption within the preceding four months.

The governing legislation does not require that interest be charged by the Division on overdue accounts except in the case of amounts owing by excise tax licensees.

In our Report last year (paragraph 169) we stated that the Division was preparing to extend the system of accounts receivable control accounts to include all receivables. However, this has not yet been fully accomplished. Furthermore, the Division is still unable to supply an aging of their accounts. We understand that substantial progress in this regard is expected by March 31, 1967.

AUDITOR GENERAL'S REPORT

TAXATION DIVISION.—The following is a summary of the accounts receivable of this Division at March 31, 1966 with comparable amounts at the close of the previous year:

	March 31, 1966	March 31, 1965
Income tax—		
Individuals	\$ 126,077,000	\$ 121,659,000
Corporations	71,189,000	66,907,000
Tax deductions and non-residents	11,370,000	11,065,000
Deferred tax	5,860,000	6,238,000
	<i>214,496,000</i>	<i>205,869,000</i>
Estate tax and succession duty	13,577,000	14,345,000
Provincial income tax	30,000	42,000
Sundry accounts	2,000	3,000
	<u>\$ 228,105,000</u>	<u>\$ 220,259,000</u>

Only \$50 million, or 22% of the total of \$228 million shown above, represents current collectable accounts. The remainder, \$178 million (over 113,000 accounts), had not been collected for the following reasons:

	March 31, 1966	March 31, 1965
1. Under appeal	\$ 85,984,000	\$ 75,102,000
There were 894 accounts under appeal at March 31, 1966. Section 51 of the Income Tax Act, R.S., c. 148, provides that "the taxpayer shall, within 30 days from the day of mailing of the notice of assessment, pay to the Receiver General of Canada any part of the assessed tax, interest and penalties then remaining unpaid, whether or not an objection to or appeal from the assessment is outstanding". Information as to the number of accounts which are secured or partially secured was not available at the head office of the Division.		
2. Uncollectable	42,438,000	45,095,000
There were 23,540 uncollectable accounts at March 31, 1966 of which 5,510 totalling \$10,578,000 were accounts in bankruptcy. During the year 9,012 accounts amounting to \$550,766 were written off.		
3. Current assessments	27,248,000	30,719,000
This amount represents 73,536 accounts for recent assessments and re-assessments the bulk of which were not due until April 30, 1966.		
4. Duplicate assessments	3,058,000	5,000,000
This is the total of 35 duplicate assessments which it was deemed necessary to raise against individuals or corporations with whom the originally assessed taxpayer may be associated or to whom he might transfer assets.		

5. Temporarily uncollectable	13,922,000	14,951,000
There are 15,031 accounts in this category representing taxpayers who are unemployed, in jail, non-residents expected to return to Canada, operators and employees of seasonal businesses, self-employed, persons receiving foreign income who at present are immune to the collection process, or who are unable to pay now but whose financial circumstances are likely to improve.		
6. Deferred tax	5,860,000	6,238,000
In accordance with section 13 of the Income War Tax Act, 1943-44, c. 14, the deferred tax is collectable only on the death of the taxpayer. The taxpayer had the option of paying part of the 1942 tax at a discount or having the executors pay it from his estate.		
7. Provincial income tax	30,000	42,000
This amount which is now regarded as uncollectable, represents the balance of 1939-40 provincial income tax arrears for Quebec and Ontario transferred to the Federal Government for collection under authority of the Dominion-Provincial Taxation Agreement Act, 1942, 1942-43, c. 13.		
	<hr/>	<hr/>
	\$ 178,540,000	\$ 177,147,000
	<hr/>	<hr/>

We repeat the opinion expressed in last year's Report (paragraph 169) that analyses of details of larger groupings of debts due to the Crown should be prepared by the departments responsible and made available to Parliament each year through the medium of the Public Accounts or in the departmental annual reports.

175. Accounts receivable—Department of Defence Production. The accounts receivable of this Department are shown in the Public Accounts as amounting to \$285,023 of which \$259,133 is recorded as being uncollectable. Not included in this total is an amount of \$196,713 owing to the Department by corporations with respect to capital assistance provided from the Department's annual appropriation for the establishment of qualified sources for the production of component parts and materials.

176. Accounts receivable—Department of Northern Affairs and National Resources. The accounts receivable of this Department amounted to \$1,347,000 at March 31, 1966 and included uncollectable accounts amounting to \$106,000. Our examination of the accounts receivable of this Department at March 31, 1965 revealed a substantial number of errors which were corrected prior to the publication of the Public Accounts for 1964-65. A further and more detailed examination was later undertaken to establish the underlying

causes of these errors. On April 1, 1966 we informed the Department that there appeared to be a lack of understanding as to what constituted accounts receivable due the Crown and a lack of uniformity of procedures indicating need for more effective controls, more specific direction and closer supervision. It appeared that maintenance of these accounts was not taken seriously because of their memorandum status.

The Department advised us on May 6 that our comments were viewed with concern and that a review of accounts receivable procedures had been found necessary because many of the existing systems and procedures were outdated. After modifications and the benefit of a further few months experience, the Department proposed to have a more exhaustive review of the complete system undertaken.

Although the accounts receivable as at March 31, 1966 were compiled after this exchange of correspondence, they were again found not to have received the attention they deserved. Furthermore, it was apparent that collection procedures with respect to amounts owing to the Department, frequently by other departments, had not been tightened up. These matters have again been drawn to the attention of the Department.

Included in the accounts owing to the Department is an amount of \$225,000 advanced to the Banff Recreational Centre in 1961-62 as a loan to be used in the construction of a building costing \$334,000 suitable for use as a curling rink. The loan is repayable in twenty equal annual instalments commencing November 1, 1966, with interest at $5\frac{1}{4}\%$ payable annually. The operation of the Centre has failed to produce sufficient revenue to permit the payment of interest which was in arrears to the extent of \$44,000 at March 31, 1966.

The Centre had agreed to provide ice-making equipment and to operate and maintain the building, furnishings and equipment. It was unable to pay the balance owing on ice-making equipment and in July 1965, with Treasury Board approval, the Department paid an amount of \$32,100 as a charge to Department of Northern Affairs and National Resources Vote 20 to liquidate this liability. In seeking Executive authority for the payment, the Department informed the Board that it would be made subject to the Centre giving some assurance that it would assume responsibility for the curling rink and meet its other obligations; that if these obligations were not met the rink would be closed until such time as the community made reasonable proposals for taking over its operation.

A further item of expense to the Department in connection with the Centre was part of a \$4,300 outlay in 1964 to management consultants for a study of ways and means of placing it, and the Jasper Recreation Commission (see paragraph 181) on a sounder economic footing. The consultants confirmed that the pattern of operation was such that the Centre was unable to meet its loan commitments to the Federal Government.

177. *Cash on deposit in chartered banks.* Included in the item "Current assets" is an amount of \$635 million on deposit in bank accounts. Of this amount, \$548 million was on deposit in the chartered banks in Canada, \$74 million in the Bank of Canada and \$13 million in banks in London, New York, Paris and Bonn.

The balances on deposit in foreign bank accounts are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, R.S., c. 13, does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada in excess of \$100 million earn interest on the minimum weekly balances at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%. As in previous years, no interest was received on the aggregate of \$100 million which was kept on deposit in the chartered banks throughout the year 1965-66 (see also paragraph 62).

178. *Departmental working capital advances.* This item appearing in the Statement of Assets and Liabilities under "Current assets" includes a number of revolving funds established by various appropriation Acts and other legislation. Subject to any special provisions in the establishing legislation, the operation of revolving funds is in general governed by the provisions of sections 58, 59 and 60 of the Financial Administration Act. These sections specify the charges and credits which may be made to a revolving fund and the composition of the balance of the fund at the year-end, in which connection section 58(5) states as follows:

At the end of each fiscal year the value of the inventory held and accounts receivable in respect of the operations of a revolving fund shall be determined in accordance with regulations of the Treasury Board, and if such value added to the receipts shown in the revolving fund, exceeds the total of expenditures shown in the revolving fund and liabilities in respect of operations of the revolving fund then due and payable, the excess shall be transferred from the revolving fund as revenue, but if the value is less no amount may be credited to the revolving fund to meet the deficiency except with the authority of Parliament.

The Royal Commission on Government Organization recommended that the use of revolving funds be increased to encourage business-type budgeting and reporting, to improve accounting for inventories and to simplify certain problems created by annual appropriations. A study of the use of revolving funds in the government service was subsequently undertaken by the Accounting Advisory Service of the Comptroller of the Treasury in co-operation with the Inter-departmental Committee on Revolving Funds and members of the Treasury Board staff.

As a result of this study the Treasury Board issued a Management Improvement Policy circular (MI-5-66, dated April 28, 1966) the objective of which is "to regulate the establishment and operation of working capital advances, subject to any act of Parliament". This circular encourages a considerably broader use of revolving funds than that contemplated by the existing legislation. For instance, section 11 of the circular states, in part, that "when requesting the establishment of, or an amendment to, a working capital advance, it may be desirable, considering the nature of the advance and in the interests of flexibility of operations, for departments to request authorization in respect to that advance, that (a) surpluses or portions thereof, be carried over to subsequent years; . . . and (d) capital equipment, used in an operation controlled by an advance, be financed

from the resources of the advance so that the cost of the equipment is recovered over its useful life through charges made for services rendered or goods supplied."

During our audit certain instances were noted where the use made of working capital advances did not appear to be in keeping with the original intent of the governing legislation. Examples are:

- (1) During the year the Queen's Printer's Advance Account was, for the first time, charged with equipment acquired at a cost of \$287,093—formerly such charges were made against special appropriations for that purpose. Section 37 of the Public Printing and Stationery Act, R.S., c. 226, provides for advances to enable the Queen's Printer "to purchase material for the execution of orders . . .", and the Deputy Attorney General has expressed the opinion that the term material is sufficiently broad to include equipment. Such an interpretation of the word material would appear to be too broad when related to capital equipment having a useful life of many years.
- (2) The National Film Board Operating Account which was established by section 18 of the National Film Act, R.S., c. 185, has been used to finance the purchase of equipment for the Canadian Government Photo Centre under the authority of Vote L30, Appropriation Act No. 5, 1963, 1963, c. 42, to the extent of \$155,378 up to March 31, 1966, of which \$15,883 was recovered through charges for services rendered.
- (3) Vote L99e, Appropriation Act No. 4, 1966, 1966-67, c. 6, authorized "the operation of a working capital advance account in the current and subsequent fiscal years in accordance with terms and conditions approved by Treasury Board for the purpose of providing data processing and related services to federal government departments and agencies, the cost of such services to be charged to the account and the amounts received in payment of such services to be credited thereto; . . .". The 1966-67 budget of the Central Data Processing Service Bureau, as approved by the Treasury Board, provides for capital expenditures of \$60,000 and an initial loss on operations of the Bureau of \$290,000 which it is proposed to carry over to subsequent years when it is expected they will be recovered from user departments and agencies through the schedule of charges for services rendered.

As stated earlier, the year-end balances in the working capital advance accounts are included in the Statement of Assets and Liabilities under "Current assets" in the item "Departmental working capital advances". Obviously those portions of the balances which are represented by unrecovered expenditure on capital equipment and by operating deficiencies carried over to subsequent years are not of a current nature. Consideration should be given to the classification of these balances for statement purposes.

Consideration should also be given to amendments to the Financial Administration Act to bring the sections governing the operation of revolving funds into line with the new concept of these as departmental working capital advances.

179. Loans to national governments. During the year a policy was adopted of making loans to assist developing countries. At March 31, 1966, \$5,256,000 had been advanced to four developing countries of which \$3,255,000 was advanced to three of the countries repayable over a period of 50 years at an interest rate of $\frac{3}{4}$ of 1% per annum.

180. Other loans and investments—Department of Mines and Technical Surveys. The Coal Production Assistance Act, R.S., c. 173, administered by the Dominion Coal Board, provides for loans to coal producers for the purpose of increasing the efficiency of the producers' operations by means of mechanization. From the enactment of this legislation in 1949 to March 31, 1966, loans of \$13,093,005 were granted, of which \$6,675,943 was outstanding at the year-end. Four producers were then in arrears in their repayments to the extent of \$1,317,968, of which \$1,255,006 was owed by one company. This company, obligated by its agreement with the Crown to make semi-annual repayments of principal based on 30 cents per ton produced in the six months preceding each June 30 and December 31, had not paid any instalments since 1964. The company was also in arrears for the same period to the extent of \$277,291 with regard to interest so that the total amount owing at March 31, 1966 was \$1,532,297. During the year the company received \$13,656,835 under the statutory provision for payments in connection with the movements of coal but recovery of the outstanding indebtedness by set-off was evidently not considered.

181. Other loans and investments—Department of Northern Affairs and National Resources. In 1961 the Department of Northern Affairs and National Resources obtained Executive authority to loan \$44,570 to the Jasper Recreation Commission, a body corporate under the Societies Act of the Province of Alberta, to assist in financing the construction of an ice arena in the Townsite of Jasper. The loan was made through specific appropriations of \$25,000 in 1961 and \$19,570 in 1963.

Under the loan agreement entered into in 1961 the Commission became obligated to repay the loan in twenty equal annual instalments of principal and interest at the rate of 5½% per annum. No payments of either principal or interest have been made and in 1964 management consultants retained by the Department to study ways and means of placing the Commission on a sounder economic footing reported that the pattern of operations was such that the Commission was not in a position to meet its loan commitments.

In 1965 the Treasury Board approved of the cancellation of the loan agreement and the write-off of both the loan of \$44,570 and interest accrued to the date of write-off. Pending parliamentary authority to delete the indebtedness, the outstanding loan appears as an asset. Accrued interest of \$9,773 is included in the memorandum accounts receivable of the Department of Northern Affairs and National Resources.

182. Suspense Accounts—Department of National Defence—Surplus Crown Assets. Included with the liability suspense items is an account authorized by Department of National Defence Vote 48, Appropriation Act No. 2, 1966, 1966-67, c.3. The vote authorizes payment into a special account in the Consolidated Revenue Fund of

- (a) all revenues received during the current and subsequent fiscal years from the sale of surplus materials, supplies and equipment, and
- (b) revenues received during the current and subsequent fiscal years from the sale during the current fiscal year of surplus buildings, works and land not exceeding an aggregate amount of \$5 million,

and expenditures from the special account during the current and subsequent fiscal years, subject to the approval of Treasury Board, for any of the purposes of the Department of National Defence.

Payments into this account during the year amounted to \$9,073,000 of which \$6,554,000 was from sales of surplus materials, supplies and equipment, and \$2,519,000 was from sales of surplus buildings, works and land. As there were no expenditures, the balance at the year-end was \$9,073,000. Funds from this account may be used, with the approval of the Treasury Board, to supplement votes of the Department of National Defence.

Crown Corporations

183. Section 85 of the Financial Administration Act requires that each Crown corporation prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus containing such information as, in the case of a company incorporated under the Canada Corporations Act, R.S., c.53, is required to be laid before the company by the directors at an annual meeting.

184. Section 87 of the Financial Administration Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation and to state in his report whether in his opinion:

- (a) proper books of account have been kept by the corporation;
- (b) the financial statements of the corporation
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
 - (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and
- (c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

185. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be laid before Parliament by the appropriate Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

186. Crown corporations classed as "agency" or "proprietary" corporations are listed in Schedules "C" and "D" to the Financial Administration Act. Those in the former class are responsible, in general, for the management of procurement, construction, service and disposal activities on behalf of the Crown. Those in the latter class are responsible for the management of lending or financial operations or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

187. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1966:

Corporation	Class	Reporting Minister
Atomic Energy of Canada Limited.....	Agency	Mines and Technical Surveys
Canadian Arsenal Limited	Agency	Industry
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation	Agency	Industry
Canadian Corporation for the 1967 World Exhibition		Trade and Commerce
Canadian National (West Indies) Steam- ships, Limited	Agency	Transport
Canadian Overseas Telecommunication Cor- poration	Proprietary	Transport
Canadian Patents and Development Limited.	Agency	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Centennial Commission	Agency	Secretary of State
Cornwall International Bridge Company Limited	Proprietary	Transport
Crown Assets Disposal Corporation	Agency	Industry
Defence Construction (1951) Limited	Agency	National Defence
Eldorado Aviation Limited	Proprietary	Mines and Technical Surveys
Eldorado Mining and Refining Limited	Proprietary	Mines and Technical Surveys
Export Credits Insurance Corporation	Proprietary	Trade and Commerce
Farm Credit Corporation	Proprietary	Agriculture
The National Battlefields Commission	Agency	Northern Affairs and National Resources
National Capital Commission	Agency	Public Works
National Harbours Board	Agency	Transport
Northern Canada Power Commission	Agency	Northern Affairs and National Resources
Northern Ontario Pipe Line Crown Cor- poration		Mines and Technical Surveys
Northern Transportation Company Limited.	Proprietary	Northern Affairs and National Resources
Park Steamship Company Limited	Agency	Transport
Polymer Corporation Limited and subsidiary companies	Proprietary	Industry
The St. Lawrence Seaway Authority	Proprietary	Transport
The Seaway International Bridge Corpora- tion, Ltd.	Proprietary	Transport

188. Since the Auditor General has not been appointed the auditor or the joint auditor of the following Crown corporations and public instrumentalities their accounts were not examined by him during the year:

<u>Corporation or Instrumentality</u>	<u>Class</u>	<u>Reporting Minister</u>
Air Canada	Proprietary	Transport
Bank of Canada		Finance
Canadian National Railways	Proprietary	Transport
The Canadian National Railways Securities Trust	Proprietary	Transport
The Canadian Wheat Board		Finance
Central Mortgage and Housing Corporation.	Proprietary	Hon. J. R. Nicholson
Industrial Development Bank		Finance

In its Third Report 1966 (see Appendix 1, item 29) the Public Accounts Committee again recommended that the Auditor General be appointed the auditor or the joint auditor of these corporations or instrumentalities.

189. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity, and this is followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

190. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Canada Corporations Act, R.S., c.53, pursuant to authority contained in the Atomic Energy Control Act, R.S., c.11, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office of the Company is in Ottawa. Nuclear reactors and research and development laboratories are maintained at Chalk River, Ont., and at the Whiteshell establishment in Manitoba. The reactor at Whiteshell came into service in the fall of 1965. Shopping centres, housing, staff hotels, and hospitals at Deep River, Ont., and Pinawa, Man., were constructed for the employees of the Chalk River nuclear laboratories and the Whiteshell establishment. A Power Projects group, located in Toronto, is responsible for the engineering, development, construction and management of nuclear power generating projects. Radioisotopes produced in the Company's reactors and equipment designed and built by the Company to use these radioisotopes are marketed throughout the world.

A nuclear power demonstration station at Rolphton, Ont., built as a co-operative project by the Company, the Hydro-Electric Power Commission of Ontario and Canadian General Electric Company Limited came into operation in 1962. Canada's first full-scale nuclear power generating station, scheduled for completion in 1966, is under construction by the Company in co-operation with the Hydro-Electric Power Commission of Ontario,

at Douglas Point, Ont. The Company is also sharing, with the Hydro-Electric Power Commission of Ontario and the Province of Ontario, in the capital cost of a nuclear electric generating station being constructed at Pickering, Ont. Upon completion, ownership will vest in the Hydro-Electric Power Commission of Ontario with the Company's share of the cost to be repaid in accordance with an agreed formula.

The accumulated costs of the Company's research facilities at Chalk River, Rolphton, Toronto and Whiteshell, charged to research expense and financed by parliamentary appropriations, amounted to \$190,694,000 at March 31, 1966. The costs of the Douglas Point generating station and the Company's share of the Pickering generating station amounting to \$53,564,000 and \$2,405,000 respectively at March 31, 1966 have been financed by Government of Canada loans.

The Crown's equity in the Company at March 31, 1966 totalled \$85,601,000 comprising: loans for the Douglas Point generating station, \$52,883,000, Pickering generating station, \$2,421,000, and housing and an engineering design building, \$12,528,000; capital stock, \$15,000,000; and retained earnings, \$2,769,000.

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1966	1965
<i>Research Program</i>		
Operating expense	\$ 45,578,000	\$ 38,445,000
Gross income from housing accommodation, hospitals, transportation, sales of steam, etc.	5,888,000	3,594,000
Excess of expense over income, provided for by parliamentary appropriations	\$ 39,690,000	\$ 34,851,000
Capital expense, provided for by:		
Parliamentary appropriation	\$ 12,977,000	\$ 10,307,000
Retained earnings	1,277,000	7,020,000
	\$ 14,254,000	\$ 17,327,000
<i>Commercial Operations</i>		
Income	\$ 6,656,000	\$ 7,416,000
Expense:		
Cost of sales	2,954,000	3,680,000
Research, selling and administrative	3,427,000	3,074,000
	6,381,000	6,754,000
Excess of income over expense	\$ 275,000	\$ 662,000

The increase of \$7,133,000 in research operating expenses resulted from accelerated activities of the Company, reflected mainly by increases in salaries and wages including welfare benefits, \$2,815,000, professional and special services, \$1,117,000, research and development contracts, \$861,000, and materials and supplies, \$778,000.

191. Canadian Arsenal Limited. This Company, with its head office in Ottawa, was incorporated under the Canada Corporations Act, R.S., c.53, pursuant to authority contained in the Department of Reconstruction Act, 1944, c.18. The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment, including the maintenance of physical facilities and manufacturing skills so that the operations may be expanded on short notice.

The Company's sales reached a peak in 1954-55 when Korean war contracts were still being completed. Except for a minor increase in 1961-62, there has been a steady decline in sales from \$80 million in 1954-55 to \$7.3 million in 1965-66. During 1965-66 the Government sold the plants at Shawinigan, Que., Beloeil, Que., and Quebec, Que., (Palace Hill plant), and the storage depot at St. Dominique, Que. At March 31, 1966 the Company was the custodian of and operated four Crown-owned plants, the cost of which was \$65 million.

At March 31, 1966 the Company held working capital advances of \$5,000,000 from the Minister of Finance, \$2,500,000 having been repaid during the year.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1966	1965
Income—		
Sales	\$ 7,280,000	\$ 7,534,000
Miscellaneous	383,000	590,000
	<hr/> 7,663,000	<hr/> 8,124,000
Expense—		
Cost of sales, including indirect labour and other overhead absorbed	6,811,000	6,897,000
Indirect labour and other overhead not absorbed in cost of sales ..	2,011,000	4,226,000
Plant shut-down costs	17,000	1,029,000
Administrative	319,000	449,000
	<hr/> 9,158,000	<hr/> 12,601,000
Excess of expense over income	<hr/> \$ 1,495,000	<hr/> \$ 4,477,000

The amount of \$1,495,000 required to meet the excess of expense over income was provided by Department of Defence Production Vote 40.

Indirect labour and other overhead expenses totalled \$5,223,000 of which \$3,212,000 was included in cost of sales. Similar costs for the previous year totalled \$6,900,000 of which \$2,674,000 was included in cost of sales. As in previous years, the portion of overhead expenses included in cost of sales was calculated on direct labour costs at rates which theoretically would have absorbed all overhead expenses if all plants had been operating on a normal one-shift basis. The extent to which these rates were not sufficient to recover overhead costs, \$2,011,000, is shown as a separate item in the above summary.

192. Canadian Broadcasting Corporation. This Corporation, established by the Canadian Broadcasting Act, 1936, 1936, c.24, superseded by the Broadcasting Act, 1958, c.22, operates the national television and radio broadcasting services and administers an international shortwave service on behalf of the Government of Canada. The head office is in Ottawa and regional offices are located in St. John's, Nfld., Halifax, N.S., Quebec, Que., Montreal, Que., Ottawa, Toronto, Ont., Winnipeg, Man., Edmonton, Alta., and Vancouver, B.C.

Prior to 1964-65 the Corporation derived funds for both its capital and operating requirements in excess of advertising revenue from grants provided by parliamentary appropriations. However, funds for capital requirements for the years ended March 31, 1965 and 1966 were provided by means of loans from the Government. Loan indebtedness at March 31, 1965 amounted to \$14,250,000 of which \$712,000 was repaid in 1965-66. Additional loans in 1965-66 amounted to \$13,167,000 so that \$26,705,000 was outstanding at March 31, 1966. The loans are repayable in 20 equal annual instalments with interest at rates varying from 5¼% to 5½% per annum (see paragraph 54).

At March 31, 1966 the Crown's equity in the Corporation amounted to \$36,710,000 represented by working capital of \$9,043,000 (including an unspent balance of \$43,000 with respect to capital loans) and the net book value of capital assets amounting to \$54,372,000, offset in part by the above mentioned loans of \$26,705,000 obtained to finance the acquisition of capital assets.

The following is a comparative summary of the net cost of operations for the past two years:

	Year ended March 31	
	1966	1965
Expense—		
Cost of production and distribution:		
Cost of programs	\$ 85,657,000	\$ 79,619,000
Network distribution	11,536,000	10,727,000
Station transmission	5,510,000	5,004,000
Payments to private stations	4,591,000	4,752,000
Commissions to agencies and networks	3,945,000	4,055,000
	<hr/> 111,239,000	<hr/> 104,157,000
Operational supervision and services	11,177,000	10,317,000
Selling and general administration	9,135,000	8,459,000
Interest on loans to finance the acquisition of capital assets	1,009,000	374,000
Emergency broadcasting	887,000	869,000
	<hr/> 133,447,000	<hr/> 124,176,000
Income—		
Advertising revenue, etc.	34,358,000	33,785,000
Net cost of operations	<hr/> \$ 99,089,000	<hr/> \$ 90,391,000

The parliamentary grant of \$95,063,000, Canadian Broadcasting Corporation Vote 1, "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service", comprised net expense of \$99,089,000 as shown above and an amount of \$712,000 required for repayment of capital loans, less depreciation of \$4,738,000 which was recorded for cost ascertainment purposes.

The net funds received for operating requirements increased by \$8,482,000 from \$85,869,000 for the year ended March 31, 1965 to \$94,351,000 for the year ended March 31, 1966. There was an increase in expense in almost all classifications. Salaries and wages increased by \$3,663,000 due to implementation of wage increase provisions of collective bargaining agreements, salary increases to supervisory staff and the engaging of an additional 143 full-time employees. The overtime content of salaries and wages was \$3,936,000 compared with \$3,398,000 in the previous year. Film purchases and rentals increased by \$1,080,000 largely because of a greater number of broadcast hours by both the English and French Networks. Payments with respect to performers' fees and authors', composers' and other rights increased by \$805,000. The cost of microwave and transmission line facilities increased by \$708,000. Some increases were attributed to the expansion of radio AM and FM broadcasting in Ottawa, Winnipeg and Calgary and also to a full year's operation of television stations at St. John's and Quebec which became operational in 1964-65. Income from television and radio advertising increased by \$272,000 and \$83,000 and interest from investments by \$145,000.

In our Report for 1965 (paragraph 187) we noted that cost of programs included: payments to employees for scheduled hours which were in excess of the actual hours of attendance during daily or weekly tours of duty; premium pay for elapsed time between assigned and actual meal periods; and premium pay for turn-around periods, being the difference between elapsed time and an established minimum period of 12 hours from the end of one tour of duty to the commencement of the next. From a special study of certain payrolls, we estimated that these payments amounted to \$600,000 in 1964-65. We did not make a similar examination of 1965-66 payrolls but have confirmed that the situation continued throughout the year.

The costs of programs available for advertising, and advertising revenue earned thereon, were shown in a note to the financial statements. These costs were as follows:

	1965-66	1964-65
Programs which carried advertising	\$ 33,710,000	\$ 32,654,000
Programs available but which did not carry advertising	22,287,000	26,935,000
Program and related costs (exclusive of operation, selling and general administration)	\$ 55,997,000	\$ 59,589,000
Advertising revenue (gross)	\$ 33,563,000	\$ 33,208,000

The net cost of programs with advertising potential in 1965-66 was therefore \$22,434,000 which was financed by the parliamentary grant.

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Expenditures incurred in connection with future programs are recorded as current assets of the Corporation until such time as the programs are presented. These asset balances were as follows:

	March 31	
	1966	1965
Programs completed and in process of production	\$ 4,878,000	\$ 5,249,000
Film and script rights	2,321,000	1,845,000
Engineering and production supplies	2,027,000	1,732,000
	<u>\$ 9,226,000</u>	<u>\$ 8,826,000</u>

The balances shown in the above tabulation are after giving effect to the following write-offs:

	1965-66	1964-65
Programs completed and in process of production—cost of programs or parts of programs, which were unsuitable for use because of technical deficiencies, scheduling difficulties, pre-emptions or lack of public interest	\$ 521,000	\$ 338,000
Film rights expired—films not telecast because of unsuitability of program content, technical deficiencies or pre-emptions	209,000	85,000
Script rights—expired or unsuitable	74,000	90,000
Engineering and production supplies—obsolete	36,000	26,000
	<u>\$ 840,000</u>	<u>\$ 539,000</u>

During the year the sum of \$13,167,000 was provided by the Government of Canada as loans for the acquisition of capital assets. In addition, an unexpended balance of \$833,000 remained from an appropriation of the previous year and \$23,000 was realized on sale of assets. A balance of \$43,000 remained at March 31, 1966. Major categories of capital expenditure included: a building and equipment for a broadcast pavilion at the 1967 World Exhibition, \$3,858,000; buildings and equipment for colour television at various locations, \$2,291,000; land, buildings and equipment for studios and offices at St. John's, \$1,124,000; and a building and equipment at Montreal, \$704,000.

The accumulated cost of capital assets of \$94,946,000 includes \$10,352,000 expended during the past seven years in connection with the planned consolidation of facilities in Montreal, Ottawa, Toronto, Winnipeg and Vancouver. The estimate of the future cost of consolidation of facilities made by the Corporation at March 31, 1966 was \$138,661,000 of which, subject to the provision of funds by Parliament for the purpose, approximately \$2,706,000 will be spent during the year ending March 31, 1967 and \$135,955,000 in subsequent years.

In our reports to management for the past four years we have referred to the Corporation's physical inventory of its capital assets and the uncompleted reconciliation

with the accounting records. The taking of the inventory, begun in 1962, remains to be completed.

We also examined the accounts and financial statements of the CBC Pension Board of Trustees and reported separately to the Trustees under date of May 17, 1966. An actuarial examination of the CBC Pension Plan as at March 31, 1964 indicated an actuarial unfunded liability of \$6,682,000 in respect of future benefits payable. A subsequent analysis by another actuary indicated that integration with the Canada and Quebec pension plans had reduced the actuarial unfunded liability to approximately \$5.5 million.

In its Fifth Report 1964, the Public Accounts Committee made the following recommendation concerning findings of the Royal Commission on Government Organization which has not yet been implemented (see Appendix 1, item 11):

The Committee recommended that the Secretary of State table an official memorandum in the House presenting the Corporation's views and its replies to each of the matters dealt with by the Royal Commission in its Report 19 and that this be done before the Estimates of the Corporation are considered by the House.

193. Canadian Commercial Corporation. This Corporation which was established in 1946 by the Canadian Commercial Corporation Act, R.S., c.35, provides procurement services in Canada for the governments of other countries and for international organizations. The Corporation's main customer is the United States Government. During the year \$155 million was expended by the Corporation on behalf of its customers as compared with \$161 million in the preceding year.

The equity of the Government of Canada in the Corporation at March 31, 1966 amounted to \$5,863,000, consisting of a \$5,500,000 working capital advance, a \$140,000 reserve for United States exchange, and a \$223,000 reserve for contingencies.

A comparative summary of the Corporation's operations for the past two years follows:

	Year ended March 31	
	1966	1965
Income—		
Purchase surcharges	\$ 106,000	\$ 100,000
Interest earned	98,000	101,000
Other	—	4,000
	<hr/> 204,000	<hr/> 205,000
Expense—		
Salaries	17,000	67,000
Other	1,000	4,000
	<hr/> 18,000	<hr/> 71,000
Excess of income over expense	<hr/> \$ 186,000	<hr/> \$ 134,000

In previous Reports we have noted that the Department of Defence Production has been providing purchasing and accounting services free of charge to the Corporation. With the implementation of the Board of Directors' decision that the management and staff should be provided by the Department of Defence Production and the functions of the Corporation transferred to and performed by that Department, the provision of free services has reached the point where this year practically all expenses have been met from Department of Defence Production Vote 1 except for the salaries of the President and his secretary, who both resigned effective November 17, 1965. As a result the Corporation's operations show an excess of income over expense of \$186,000 this year compared with \$134,000 in the preceding year. The Department of Defence Production estimated the value of its purchasing, accounting and other services provided to the Corporation at \$1,740,000, and the value of major services provided by other government departments at \$402,000. Taking these costs into account, the net cost of operating the Corporation this year was \$1,956,000.

We have suggested that the costs now being absorbed by the Department of Defence Production should form part of the Corporation's budget and be offset by the Corporation's revenue, the net deficit being provided for by means of a specific parliamentary appropriation. We understand this suggestion has been accepted and will be implemented in the 1967-68 Estimates.

There were several material changes in items in the Corporation's Balance Sheet. The reduction of \$26 million in advances and progress payments to suppliers, from \$40 million in 1965 to \$14 million in 1966, and the corresponding reduction in advances received from customers, reflect the near completion of an aircraft procurement program that provided for substantial advance payments. This year, for the first time, progress claims for work done prior to March 31 amounting to \$5.8 million were included in the accounts receivable and payable, contributing to the increases in these items. Accounts receivable increased a further \$3.6 million due to the increased indebtedness of United States Government agencies. This increase, together with increased advances and progress payments to suppliers under United States Government contracts that have been financed by the Corporation, explains the need for the increase of \$2 million in the Government of Canada working capital advance to the Corporation.

A Reserve for Contingencies of \$225,000 was set up at March 31, 1965 to cover possible losses falling on the Corporation in respect of contracts with the United States and other governments, except negotiated fixed price contracts with the United States military departments. In accordance with the Board of Directors' decision to maintain the Reserve for Contingencies at \$225,000, the Corporation hopes to recoup, by means of a parliamentary appropriation, the \$1,600 charged to the Reserve in the year in respect of unabsorbed freight costs.

194. Canadian Corporation for the 1967 World Exhibition. This Corporation was established by the Canadian Corporation for the 1967 World Exhibition Act, 1962-63, c. 12, for the purposes of planning, organizing, holding and administering the Inter-

national and Universal Exhibition to be held in Montreal in 1967 in connection with the celebration of the Centennial of Confederation in Canada. An Act respecting the Canadian World Exhibition, passed by the Quebec Legislature in 1963, provides authority for the Province of Quebec and the City of Montreal to share with the Government of Canada in the financing of the Corporation.

The Corporation consists of a Commissioner General, a Deputy Commissioner General and fourteen other directors appointed by the Governor in Council, seven of whom are appointed on the recommendation of the Lieutenant-Governor in Council of the Province of Quebec.

Section 17 of the Act requires that the accounts and financial transactions of the Corporation shall be audited by the Auditor General of Canada and the Quebec Provincial Auditor. The auditors are to report annually in a manner similar to that required by the Financial Administration Act in respect of other Crown corporations.

An agreement was concluded on January 18, 1963 by Canada, the Province of Quebec and the City of Montreal confirming their acceptance of the legislation establishing and governing the Corporation, and outlining certain "settlements" between the Corporation and the three governments to be concluded after the closing of the Exhibition. The Corporation wrote to Canada, the Province of Quebec and the City of Montreal on September 21, 1966 recommending that, as the clauses of the agreement relating to these settlements are worded in vague and general terms, their exact intent should be more precisely stated in order to avoid complications in understanding and interpretation.

Pursuant to the provisions of the federal Act, the original overall plan for the Exhibition was submitted by the Corporation for approval on December 20, 1963 and ratification thereof was subsequently given by both the Governor in Council and the Lieutenant-Governor in Council. This plan indicated an overall estimated deficit of \$47,534,000. Revised plans have since been approved in 1965 and 1966 setting the estimated deficit at \$63,864,000 and then at \$61,581,000, with the approved plan in effect at March 31, 1966 showing an estimated deficit of \$82,656,000. This plan, which was submitted on January 17, 1966 and was approved by the Lieutenant-Governor in Council on March 30, 1966 and by the Governor in Council on March 31, 1966, included the following summary of the estimated amounts making up the above total:

Expenditure—		
Capital	\$ 211,078,000	
Operating	121,768,000	
		\$ 332,846,000
Income—		
Sponsorship	54,014,000	
Revenue	125,148,000	
Salvage value	10,520,000	
Asset value	60,508,000	
		250,190,000
Estimated deficit		\$ 82,656,000

Under the authority of the federal and provincial legislation, the activities of the Corporation are financed by funds provided by Canada, the Province of Quebec and the City of Montreal, and the aggregate of the grants made by the three governments must not exceed \$20 million, \$15 million, and \$5 million respectively. These grants were fully paid to the Corporation by August 2, 1965. In this connection reference is made to paragraph 56 of this Report.

Section 12 of the federal Act provides that the Corporation, with the approval of the Minister of Finance and the Minister of Finance of Quebec, may borrow money for the purposes for which it is incorporated on the security of notes, bonds or debentures of the Corporation. Such notes, bonds or debentures are to be issued at such rates of interest and subject to such other terms and conditions as may be approved by the Governor in Council and the Lieutenant-Governor in Council, and are to be jointly guaranteed by Canada and Quebec. In addition, subsection (5) of section 12 provides that the Corporation may borrow money from the Minister of Finance for temporary purposes, and the Minister of Finance, with the approval of the Governor in Council and subject to such terms and conditions as the Governor in Council may prescribe, may lend money to the Corporation for such purposes out of the Consolidated Revenue Fund, but the aggregate of all amounts loaned to the Corporation under this subsection and outstanding at any time shall not exceed \$1 million.

Borrowings by the Corporation pursuant to the aforesaid arrangements totalled \$22 million at December 31, 1965 and had reached \$44 million at March 31, 1966. This amount had been loaned by Canada under authority of Department of Finance Vote L26b, Appropriation Act No. 2, 1966, 1966-67, c. 3.

As already noted, the net cost of the Exhibition has been estimated at \$82,656,000, which has been covered only to the extent of \$40 million by means of grants authorized and received. From the above table it will be seen that the total estimated cash requirement of the Corporation is \$143,164,000 (i.e., the total of the estimated deficit of \$82,656,000 and the estimated asset value of \$60,508,000), based on the assumption that the estimated revenue, sponsorship and salvage value will be fully realized. It will therefore be clear that unless changes are made in the present legislation to provide the additional substantial grants required, the major portion of the cost will have been financed by loans from Canada and at the conclusion of the Exhibition the Corporation will not have the cash resources necessary to repay its indebtedness to Canada.

Section 15 of the Canadian Corporation for the 1967 World Exhibition Act requires the Corporation to submit a capital budget and an operating budget annually to the Minister designated to act as Minister for the Exhibition and to the Minister of Finance, as well as to the Minister of Industry and Commerce of Quebec and the Minister of Finance of Quebec, for their approval, and the first mentioned Minister is required to lay the capital budget, so approved, before Parliament. The 1965 capital budget as revised provided for estimated capital outlays during that year of \$70,609,000. The actual ex-

penditures in 1965 totalling \$42,430,000 as well as the cumulative capital expenditures to December 31, 1965 are summarized below:

	1965	Cumulative to December 31, 1965
Site preparation	\$ 1,070,000	\$ 1,746,000
Roads and bridges	12,148,000	19,282,000
Utilities	4,404,000	5,097,000
Landscape development	1,247,000	1,498,000
Parking lots	155,000	216,000
Buildings and special structures	13,540,000	15,289,000
Transit system	5,496,000	5,867,000
Temporary construction facilities	247,000	284,000
Special engineering studies	1,268,000	1,691,000
La Ronde	1,744,000	1,744,000
	41,319,000	52,714,000
Construction insurance	53,000	53,000
Construction steel on hand	699,000	699,000
Furniture and equipment and leasehold improvements	359,000	1,040,000
	<u>\$ 42,430,000</u>	<u>\$ 54,506,000</u>

Actual capital expenditures were considerably lower than the corresponding budget estimates due to a number of factors including too high a forecast, delays in performance, changes in contracts and adoption of new progress schedules during the year.

The Corporation's Balance Sheet as at December 31, 1965 shows capital costs in the amount of \$54,002,000 which had been arrived at by applying against the total capital expenditures of \$54,506,000 the cumulative amortization of leasehold improvements and depreciation of furniture and equipment totalling \$504,000, charged to operating costs to that date.

The operating budget for 1965, approved by the Minister of Finance and the Minister of Finance of Quebec, amounted to \$12,828,000. The net operating costs for the year totalled \$10,877,000 and are summarized hereunder together with the cumulative totals to December 31, 1965:

	1965	Cumulative to December 31, 1965
Administration costs—		
Personnel expenses:		
Salaries	\$ 6,188,000	\$ 9,945,000
Recruitment and relocation of personnel	73,000	168,000
Automobile	79,000	135,000
Travel expenses and representation fees	387,000	761,000
Official visits	171,000	171,000
Membership fees	5,000	8,000
	<u>6,903,000</u>	<u>11,188,000</u>

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	1965	Cumulative to December 31, 1965
Administrative:		
Administrative services	\$ 196,000	\$ 307,000
Architectural and engineering supplies	103,000	151,000
Directors' expenses and Executive Committee fees and expenses	25,000	64,000
Insurance	7,000	13,000
Legal fees	86,000	154,000
Office stationery and supplies	140,000	259,000
Office furniture and equipment rental and maintenance	65,000	123,000
Light and power	11,000	21,000
Postage	63,000	86,000
Publications	10,000	48,000
Rent	459,000	837,000
Telephone and telegraph	222,000	361,000
Translation	106,000	157,000
Taxes	22,000	38,000
Sundries	49,000	78,000
	<u>1,564,000</u>	<u>2,697,000</u>
Advisory Committee travel and subsistence	129,000	202,000
Other	143,000	439,000
Advertising and publicity costs—		
Trade advertising	56,000	317,000
Consumer advertising	407,000	642,000
Promotions	35,000	106,000
Displays	154,000	249,000
Information	598,000	957,000
	<u>1,250,000</u>	<u>2,271,000</u>
Operating costs site services—		
Security and protection	176,000	203,000
Information services	31,000	31,000
Medical services and supplies	45,000	45,000
Building and ground maintenance	181,000	181,000
Maintenance and service vehicles	21,000	21,000
La Ronde	62,000	62,000
	<u>516,000</u>	<u>543,000</u>
Interest on notes payable	194,000	194,000
Total costs	10,699,000	17,534,000
Amortization and depreciation	281,000	504,000
	<u>10,980,000</u>	<u>18,038,000</u>
Revenue earned	103,000	136,000
Net costs of operations	<u>\$ 10,877,000</u>	<u>\$ 17,902,000</u>

In our 1965 Report to the House of Commons details were given of certain transactions and practices of the Corporation involving expenditures which, in the opinion of the joint auditors, were not consistent with those normally followed by Crown corporations and government agencies in similar circumstances. The attention of the Corporation's management and the Board of Directors has been drawn to our views and they have advised us that the expenditures in question were necessary to the Corporation. Our examination of the accounts for the year 1965 disclosed the continued existence of these practices as well as a further increase in their cost to the Corporation.

The revised overall plan previously referred to, which was approved by the Governor in Council on March 31, 1966, authorized an expenditure of \$2,175,000 by the Corporation on sewage disposal units. We noted that under date of August 1, 1965 the Corporation had entered into an agreement with the City of Montreal whereby ownership would be vested in the City with the latter reimbursing the Corporation for the total cost of construction. The agreement further provided that the Corporation would pay rental for the use of the units equal to 60% of the cost as well as all operating expenses. Since this is not in accordance with the provisions of the overall plan, we have advised the management that we believe the various aspects of this change relating to the Corporation should also be submitted to the Governor in Council for approval.

A number of other matters noted during our 1965 examination of the Corporation's accounts were brought to the attention of the President and members of the Board of Directors with the suggestion that action be taken to deal with them. We shall be reviewing with the management the action taken on each of these matters at the conclusion of our 1966 examination.

195. *Canadian National (West Indies) Steamships, Limited.* The active operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1965 amounted to \$550,000, represented by cash, \$94,000, and balance due under agreement of sale of vessels, \$470,000, less liability in respect of unclaimed matured bonds of \$14,000. During the year the Company received \$9,400 in war claims, earned bank interest of \$2,400 and paid \$2,900 in full and final settlement of a claim for damages and \$900 for legal expenses.

The balance due under agreement of sale of vessels represents the final instalment, due August 19, 1963, under terms of letter of credit confirmed by the Bank of America. Payment has continued to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963, despite efforts of management to obtain release of the funds.

196. *Canadian Overseas Telecommunication Corporation.* The objects of this Corporation, established in 1949 by the Canadian Overseas Telecommunication Corporation Act, R.S., c. 42, are to establish, maintain and operate external telecommunication services generally, and to co-ordinate Canada's external telecommunication services with those of other nations. In 1950 the Corporation acquired the Canadian external telecommunication facilities of Cable and Wireless Limited and Canadian Marconi Company

Limited, which provided cable and radio-telegraph circuits between Canada and Britain, Australia, New Zealand, New York and St. Pierre and Miquelon, and radio-telephone services to Britain and the West Indies. Since 1950 the Corporation has developed or participated with Commonwealth partners and other nations in the development of major extensions of and additions to the Canadian international telecommunication facilities and systems. In line with this policy, the Commonwealth Pacific Cable System between Canada and New Zealand and Australia was completed in December 1963. The South-East Asia Cable System linking Australia, New Guinea, Malaysia, Singapore, Hong Kong and Guam is expected to be completed and become operative by early 1967. In 1964 the Corporation made its initial capital contribution as a participant in the establishment of a global commercial communications satellite system which is now being developed. Facilities of the Department of Transport are being used on a temporary basis in connection with this system pending the construction of a ground station.

The Crown's equity in the Corporation was \$67,622,000 at March 31, 1966 (an increase of \$29,000 over the previous year) comprising advances of \$52,522,000 and a surplus of \$15,100,000.

The capital requirements of the Corporation are financed in part by loans provided by parliamentary appropriations, with the balance being met from accumulated earnings. The Corporation did not require any advances during the year and repaid \$2,532,000 on advances received in prior years. Capital additions amounted to \$5,381,000 and at March 31, 1966 the estimated cost of completing approved capital projects was \$29,800,000 of which \$12,801,000 relates to the year ending March 31, 1967.

The following is a summary of income and expense of the Corporation for the past two years:

	Year ended March 31	
	1966	1965
Income—		
Telegraph, telephone, telex, circuit rentals, etc.	\$ 17,967,000	\$ 15,355,000
Expense—		
Salaries, wages and employee benefits	4,258,000	3,613,000
Depreciation	4,828,000	4,016,000
Rental of circuits, etc.	2,178,000	1,894,000
Interest	2,524,000	2,604,000
Maintenance and repairs—plant and equipment	981,000	1,519,000
Other	931,000	986,000
	15,700,000	14,632,000
Estimated amount recoverable from Commonwealth Network ..	2,834,000	3,699,000
	12,866,000	10,933,000
Profit before income tax	5,101,000	4,422,000
Provision for income tax	2,540,000	2,201,000
Net profit	\$ 2,561,000	\$ 2,221,000

Income increased by \$2,612,000 or 17% during the year compared with an 8% increase in the previous year. The increased revenue was due largely to a heavier volume of telephone traffic and to increased telex revenue and circuit rentals. Expenses increased by \$1,068,000 or 7% while the estimated amount recoverable from the Commonwealth Network was \$865,000 less than in the previous year.

In last year's Report we noted that expenditures aggregating \$2,088,000 had not been approved by the Governor in Council as required by the Canadian Overseas Telecommunication Corporation Act. These expenditures received the necessary approval retroactively during the current year.

197. Canadian Patents and Development Limited. Section 17 of the National Research Council Act, R.S., c.239, provides for the incorporation of one or more companies by the National Research Council for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Canada Corporations Act, R.S., c.53, for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the Company, which is located in Ottawa, are available to government departments, publicly supported institutions and universities.

At March 31, 1966 the Crown's equity in the Company was \$1,287,000, comprising capital stock of \$296,000 and surplus of \$991,000.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended March 31	
	1966	1965
Income—		
Royalties, licensing fees, etc.	\$ 350,000	\$ 397,000
Less: Costs of licensing rights and related technical assistance, etc. .	51,000	35,000
	299,000	362,000
Other income	70,000	49,000
	369,000	411,000
Expense—		
Salaries	91,000	31,000
Patent attorneys' fees and other patenting costs	85,000	44,000
Promotion and development	51,000	50,000
Services provided by National Research Council	20,000	48,000
Awards to inventors	15,000	17,000
Other expenses	6,000	4,000
	268,000	194,000
Net profit	\$ 101,000	\$ 217,000

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The decreased income from royalties, licensing fees, etc., is largely attributable to substantial reductions in royalties received on two inventions although there were significant increases in royalties received on three other inventions. The increase in the costs of licensing rights and related technical assistance, etc., was mainly due to an increase in royalty proceeds required to be remitted to a United Kingdom Crown corporation.

The increase in salaries and the decrease in the cost of services provided by the National Research Council are mainly due to a change in arrangements with the Council whereby, commencing April 1, 1965, the Company reimburses the Council for the salaries of all personnel employed full-time on Company affairs. In prior years the salary item consisted mainly of the salaries of personnel employed in the promotion section.

The increased cost of patent attorneys' fees and other patenting costs resulted mainly from a substantial increase in activities related to the procurement of patents as well as increases in the fees charged by attorneys.

198. Centennial Commission. The Centennial Commission was established by the Centennial of Canadian Confederation Act, 1960-61, c.60, to promote interest in, and to plan and implement programs and projects relating to the Centennial of Confederation in Canada. The Commission consists of a Commissioner, an Associate Commissioner and twelve Directors, all appointed by the Governor in Council.

The following is a comparative summary of expenses for the past two years and the cumulative figures since the establishment of the Commission:

	Year ended March 31		Cumulative to March 31, 1966
	1966	1965	
Programs and projects of national significance ..\$	7,592,000	\$ 2,439,000	\$ 11,800,000
Grants to provinces for approved projects of a lasting nature	4,469,000	976,000	5,445,000
Administrative expenses—			
Salaries and employee benefits	808,000	494,000	1,582,000
Professional and special services	318,000	90,000	452,000
Exhibits, displays and films	250,000	49,000	299,000
Travel	134,000	70,000	241,000
Informational programs and publications	86,000	18,000	112,000
Accommodation	78,000	37,000	140,000
Other	229,000	104,000	409,000
	1,903,000	862,000	3,235,000
Total expense	\$ 13,964,000	\$ 4,277,000	\$ 20,480,000

The expenditure of \$7,592,000 on programs and projects of national significance was provided for by parliamentary appropriations. Cumulative expenditure to March 31, 1966 on twenty-two of the major programs and projects amounted to \$11,630,000, including \$2,621,000 contributed toward the construction of the Fathers of Confederation

Memorial Building at Charlottetown, P.E.I. The main expenditures in 1965-66 were incurred in respect of: National Arts Centre, Ottawa, \$3,765,000; Confederation Train and Caravans, \$1,268,000; Youth Travel Program, \$715,000; Performing Arts Program, \$681,000; Fathers of Confederation Memorial Citizens Foundation, \$202,000; Canadian Centenary Council, \$126,000; and Promotional Films, \$109,000.

Section 10 of the Act directs that there shall be a special account in the Consolidated Revenue Fund to be known as the Centennial of Confederation Fund, to which shall be credited amounts appropriated by Parliament for purposes of the Fund. At the end of the previous year a balance of \$6,024,000 was held by the Minister of Finance at credit of the Fund, \$9,000,000 was added during the year and grants to the provinces for approved projects amounted to \$4,469,000. A balance of \$10,555,000 remained in the Fund at March 31, 1966.

As the centennial year approaches the activity of the Commission has increased, the staff at March 31, 1966 being 125 compared with 66 at the previous year-end. As a result, all classifications of administrative expenses increased. These expenses were provided for, to the extent of \$1,813,000, by parliamentary appropriations. Accommodation and accounting services, having an estimated cost of \$90,000, were provided without charge by government departments.

199. Cornwall International Bridge Company Limited. The shares of this Company are owned equally by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government Corporation).

The Company has been in process of winding up since July 3, 1962, when it ceased to operate the toll bridge system across the St. Lawrence River between Cornwall, Ont., and Rooseveltown, N.Y. The toll bridge system is now operated by The Seaway International Bridge Corporation, Ltd., a subsidiary of The St. Lawrence Seaway Authority. The land owned by the Company, 17.6 acres located in the State of New York, has been offered for sale.

The equity of the Seaway entities in the Company at September 30, 1965 consisted of capital stock of \$50,000 less a deficit of \$9,000.

200. Crown Assets Disposal Corporation. This Corporation was established in 1944 by the Surplus Crown Assets Act, R.S., c.260. With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of all government departments and most of the Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The head office of the Corporation is in Ottawa, with sales offices in a number of cities across Canada.

As has been the case for a number of years, the Corporation was authorized for the 1965-66 year to retain 4% of the net proceeds of sales of lands and buildings and 10% of

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the net proceeds of all other sales to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year together with comparable figures for the preceding year follows:

	Year ended March 31	
	1966	1965
Income—		
Portion retainable by the Corporation from net sales and other income earned	\$ 1,308,000	\$ 1,349,000
Expense—		
Salaries	577,000	496,000
Rent	56,000	55,000
Employees' welfare benefits	54,000	48,000
Printing, stationery and office supplies	38,000	31,000
Telephones, telegraph and postage	31,000	27,000
Travel	18,000	14,000
Office furniture and equipment purchased during year	13,000	12,000
Legal and advertising	6,000	15,000
Data processing	2,000	—
Net depreciated cost at March 31, 1964 of office furniture and equipment, etc., written off	—	21,000
Sundry	2,000	2,000
	<u>797,000</u>	<u>721,000</u>
Excess of income over expense	\$ 511,000	\$ 628,000

The \$41,000 decrease in income was due mainly to a reduction in sales of lands and buildings. A major part of the \$76,000 increase in expense resulted from salary increases retroactive to October 1, 1965, together with a reclassification of positions and an increase in staff from 106 to 115, and an increase in printing, stationery and office supplies due mainly to price increases and a more intensive sales program. The increase in travel costs was primarily caused by a greater emphasis being placed on pre-sales inspection.

Pursuant to section 81(3) of the Financial Administration Act the Corporation was directed to pay to the Receiver General, as of March 31, 1959 and from time to time thereafter, but at intervals of not longer than six months, all of its surplus in excess of \$100,000. Consequently the \$511,000 excess of income over expense for the year was paid to the Receiver General, leaving the surplus balance unchanged at \$100,000.

The equity of the Crown in the Corporation's Agency Account at March 31, 1966 was \$5,013,000, compared with \$5,538,000 at the end of the preceding year, and was largely represented by amounts totalling \$4,297,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31	
	1966	1965
Sales made on behalf of—		
Government of Canada	\$ 15,289,000	\$ 16,101,000
Other principals	873,000	958,000
Interest	207,000	208,000
	16,369,000	17,267,000
Less: Direct costs relating to sales	43,000	52,000
	16,326,000	17,215,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned	1,308,000	1,349,000
Additional provision for doubtful accounts	4,000	—
Remittances to the Receiver General	14,754,000	14,666,000
Other remittances	792,000	978,000
	16,858,000	16,993,000
Decrease (increase) in equity—		
Government of Canada	525,000	(341,000)
Other principals	7,000	119,000
	\$ 532,000	\$ (222,000)

Sales decreased by \$897,000 due primarily to a reduction in the number of sales of lands and buildings involving substantial amounts.

In our 1965 Report (paragraph 195) it was mentioned that steps had been taken to implement recommendations made by the Public Accounts Committee in its Seventh Report 1964. The Corporation has reorganized its Commodity Sales Division and merged the former Supply Division into the Commodity Sales Division to integrate and improve inspection and sales procedures. The Corporation is continuing to revise its operating instructions and is exploring ways and means of further improving its sales techniques.

201. Defence Construction (1951) Limited. This Company was incorporated in 1951 under the Canada Corporations Act, R.S., c. 53, pursuant to the authority in section 7 of the Defence Production Act, R.S., c. 62. In April 1965 the control or supervision of the Company was transferred from the Minister of Industry to the Minister of National Defence.

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The Company is responsible for awarding and supervising contracts for defence construction projects and it may also assist civilian agencies of the Government. Funds to finance projects are provided by the departments concerned, or by the United States Government for defence projects in Canada undertaken on its behalf. Expenditures on defence construction projects approved by the Company for payment by the Department of National Defence and by the United States Government decreased by \$6.3 million from \$32.5 million in 1964-65 to \$26.2 million in 1965-66.

Funds to cover the Company's net expense were provided by Department of Defence Production Vote 35. The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1966	1965
Expense—		
Salaries and living allowances	\$ 2,996,000	\$ 3,035,000
Employee benefits	219,000	219,000
Travel and removal	155,000	160,000
Other	268,000	328,000
	<u>3,638,000</u>	<u>3,742,000</u>
Income—		
Reimbursement for engineering and administrative services	1,674,000	1,540,000
Other	1,000	2,000
	<u>1,675,000</u>	<u>1,542,000</u>
Net expense	<u>\$ 1,963,000</u>	<u>\$ 2,200,000</u>

The decrease of \$237,000 in the Company's net expense is accounted for mainly by a decrease of \$167,000 in non-recoverable salaries and related costs, due to a reduction in the number of employees engaged on the Company's regular work, and a decrease of \$31,000 in expenditure for accommodation, due to a reduction in the space occupied by head office, and to the use of field office accommodation provided without charge by the Department of National Defence.

202. Eldorado Aviation Limited. This Company was incorporated in 1953 under the Canada Corporations Act, R.S., c. 53, and is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Operating from headquarters in Edmonton, it provides air transportation services for its parent company and Northern Transportation Company Limited, which is also a subsidiary of Eldorado Mining and Refining Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Mining and Refining Limited in the Company at December 31, 1965 comprised capital stock of \$28,000 and surplus of \$228,000.

The following is a comparative summary of the net expenses of the Company for the past two years:

	Year ended December 31	
	1965	1964
Salaries, wages and contributions to employee pension plan	\$ 237,000	\$ 231,000
Repairs	108,000	173,000
Supplies	134,000	150,000
Depreciation	51,000	62,000
Hangar expense	50,000	53,000
Insurance	23,000	36,000
Other	30,000	35,000
Total expense	633,000	740,000
Less: Miscellaneous income	54,000	23,000
Net expense	\$ 579,000	\$ 717,000

The decrease in repairs expense was due to there being no counterpart in 1965 for the overhaul in 1964 of the Company's DC-4 aircraft at a cost of \$66,000. The return to service of this aircraft which costs less to operate than the two DC-3's that were used in 1964, largely accounts for the reduction in the cost of supplies.

The net expenses for 1965 were recovered, to the extent of \$445,000, from Eldorado Mining and Refining Limited and, to the extent of \$134,000, from Northern Transportation Company Limited.

203. Eldorado Mining and Refining Limited. This Company was incorporated in 1945 under the Canada Corporations Act, R.S., c.53, following expropriation in 1944 of the shares of a privately-owned company. The head office of the Company is in Ottawa, the Beaverlodge mine is near Uranium City, Sask., and the refinery and administrative offices are in Port Hope, Ont. The principal functions of the Company are to produce, refine and sell uranium and allied products.

The equity of the Crown in the Company at December 31, 1965 amounted to \$52,586,000 consisting of capital stock of \$6,586,000 and surplus of \$46,000,000. A dividend of \$1,500,000 was paid in December 1965.

In 1962 the Company contracted to sell to the United Kingdom Atomic Energy Authority 24,000,000 pounds of uranium concentrates between the years 1962 and 1971. At the same time, the Company contracted to purchase 20,917,000 pounds of uranium concentrates from six producers, leaving a balance of 3,083,000 pounds to be supplied from the Company's own mine. The contract provides for the deferment of payment on 4,800,000 pounds until the later years of the contract period. At December 31, 1965 an amount of \$3,221,000 was due to the Company under this contract in fixed monthly instalments ending March 31, 1966 while \$25,613,000 is recoverable in equal annual instalments during the years 1971 to 1973.

All costs and expenses in connection with the procurement of concentrates from other producers are recovered and, in addition, charges (amounting to \$938,000 in 1965) are made by the Company for administering and financing the program. Up to the end of the previous year, costs and expenses of concentrates procured from other producers exceeded sales by \$242,000. During the year the excess of sales over costs and expenses amounted to \$1,411,000, resulting in a balance of \$1,169,000 to be offset against deliveries in the period 1968 to 1971 when costs of acquisition will exceed the amount of the sales.

The Governor in Council granted authority in 1965 for the entry into further contracts between Her Majesty the Queen in right of Canada, represented by Eldorado Mining and Refining Limited, and certain other uranium producers for the purchase of uranium bearing concentrates for a Government of Canada stockpile. At December 31, 1965 the Company was the custodian of uranium concentrates thus acquired at a total cost of \$33,012,000, of which \$8,581,000 applies to concentrates acquired during the year. Funds for the acquisition of these concentrates were provided by appropriations of the Department of Trade and Commerce and accordingly their cost was not included in the accounts of the Company (see paragraph 131).

The following is a summary of income and expense for the past two years:

	Year ended December 31	
	1965	1964
Income—		
Sales of uranium concentrates, uranium metal and related products, and revenue from refining services	\$ 16,388,000	\$ 15,690,000
Expense—		
Mining, milling, refining and other expenses	14,613,000	13,170,000
Scientific research	1,655,000	1,180,000
Selling and shipping expense	239,000	154,000
	16,507,000	14,504,000
Net (loss) income from operations	(119,000)	1,186,000
Income arising from the financing of ore procurement program .	907,000	2,974,000
Interest and other non-operating income (net)	638,000	690,000
	1,426,000	4,850,000
Provision for income tax	—	2,400,000
Net income	\$ 1,426,000	\$ 2,450,000

Although sales of uranium concentrates totalled 2,080,000 pounds in 1965, compared with 1,379,000 pounds in 1964, revenue from sales was only \$1,040,000 greater in 1965. The sales in 1964 were made under a contract on a basis of \$10 per pound plus allowances for escalation of labour and other costs amounting to \$420,000. In 1965, however, 1,246,000 pounds were sold at \$5.37 per pound and lesser quantities at \$8 and \$10 per pound. Revenue from refining services decreased by \$342,000 in 1965.

The increase in mining, milling, refining and other expenses is due largely to the greater number of pounds of concentrates sold in 1965. Lateral mine development and shaft sinking expenses were also greater than in 1964.

No provision for income tax was required in 1965. In recent years, depreciation has been recorded in the accounts at rates which exceeded the capital cost allowance permitted under the Income Tax Act in determining taxable income. In 1965, the permissible capital cost allowance exceeded depreciation charged, which together with allowances for depletion and scientific research, resulted in a loss for the year for income tax purposes. By virtue of this loss, \$354,000 of the income tax paid in 1964 is recoverable and was credited to surplus.

204. *Export Credits Insurance Corporation.* This Corporation was established in 1944 by the Export Credits Insurance Act, R.S., c. 105, to provide insurance to Canadian exporters of goods and services against the risk of non-payment by foreign buyers. The Corporation, which has its head office in Ottawa and branches in Montreal and Toronto, is intended to operate on a self-sustaining basis from premiums charged on contracts of insurance. Where the Corporation is of the opinion that a proposed contract of insurance would impose upon it a liability for a term or in an amount in excess of that which it would normally undertake it may seek the approval of the Governor in Council, pursuant to section 21 of the Act, to enter into the proposed contract of insurance. In the event of a loss under this section (there has been none) the moneys required to discharge the liability are payable from unappropriated moneys in the Consolidated Revenue Fund. An amendment to the Act in 1959 introduced section 21A under which the Corporation may, with the authority of the Governor in Council, provide long-term financing for export sales of capital goods and services with funds available out of the Consolidated Revenue Fund.

The Crown's equity in the Corporation at December 31, 1965 was \$134,043,000 consisting of share capital of \$5,000,000, capital surplus of \$5,000,000, an underwriting reserve of \$5,000,000, and earned surplus of \$5,397,000, together with advances and accrued interest totalling \$113,646,000 in respect of long-term financing of sales agreements under section 21A of the Act.

Export sales insured by the Corporation on its own account during 1965 totalled \$134,000,000 on which premiums of \$736,000 were earned. Export sales insured under section 21 of the Act totalled \$79,000,000 and premiums amounted to \$924,000 of which \$693,000 was remitted to the Receiver General and \$231,000 was retained by the Corporation, and recorded as deferred income, in respect of expenses and overhead, on the basis authorized by the Minister of Trade and Commerce. At December 31, 1965 the liability of the Corporation under contracts of insurance issued and outstanding totalled \$490,230,000 of which \$359,237,000 was for contracts entered into under section 21 of the Act.

At December 31, 1965, after five years of operation in the field of direct long-term financing of export sales of capital goods and services under the authority of section 21A of the Act, the Corporation had signed agreements to finance export sales amounting to \$269,000,000 of which \$166,000,000 had been disbursed, and \$18,000,000 had been repaid, leaving a balance on loan of \$148,000,000. The Corporation's portion of interest and of guarantee fees earned in respect of long-term financing agreements amounted to \$340,000 in the year compared with \$232,000 in the previous year. Notes for \$37,000,000, which mature within four years and are unconditionally guaranteed by the Corporation, were held for the account of Export Finance Corporation of Canada, Ltd. (a subsidiary of the Canadian chartered banks) to whom they had been sold although the Corporation continues to be responsible for the collection of principal and interest. In addition to the signed financing agreements, the Corporation had agreed to finance \$14,000,000 of prospective sales and had guaranteed or had undertaken to guarantee negotiable instruments totalling \$9,347,000 with respect to completed sales.

The following is a comparative summary of operations for the past two years:

	Year ended December 31	
	1965	1964
Income—		
Premiums and fees earned	\$ 1,447,000	\$ 1,287,000
Expense—		
Salaries and employee benefits	484,000	438,000
Rents	47,000	39,000
Stationery, printing and office expenses	41,000	28,000
Travel	24,000	29,000
Communications expense	21,000	18,000
Other	62,000	46,000
	679,000	598,000
	768,000	689,000
Policyholders' claims—		
Recoveries	397,000	655,000
Payments	150,000	515,000
	247,000	140,000
Excess of income and policyholders' claims (net) over expense	1,015,000	829,000
Interest on investments	323,000	636,000
Excess of income over expense	\$ 1,338,000	\$ 1,465,000

The increase of \$81,000 in administrative expense for the year resulted mainly from an increase of \$44,000 in salaries, of which approximately \$21,000 was for additional staff engaged in 1964 and 1965 and \$23,000 was for salary increases.

The following is a summary of transactions in respect of claims paid to policyholders:

Type of claim	Outstanding Jan. 1, 1965	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1965
Insolvency	\$ 253,000	\$ 44,000	\$ 14,000	\$ 32,000	\$ 251,000
Default	254,000	96,000	19,000	31,000	300,000
Exchange transfer	359,000	4,000	363,000	(15,000)	15,000
Other	1,000	6,000	1,000	5,000	1,000
	<u>\$ 867,000</u>	<u>\$ 150,000</u>	<u>\$ 397,000</u>	<u>\$ 53,000</u>	<u>\$ 567,000</u>

Of the amount of \$567,000 in claim payments shown above as outstanding at December 31, 1965 the Corporation anticipates making substantial recoveries. The amounts recovered will be added to income in the years in which recoveries are effected.

In 1964 an amendment to the Export Credits Insurance Act exempted the Corporation from the payment of income tax following which an amount of \$10 million, corresponding to the sum of the paid-in capital and capital surplus, was on July 31, 1964 paid into a special non-interest-bearing account in the name of the Corporation in the Consolidated Revenue Fund. In April 1965 a further \$3,976,000, representing accumulated net earnings through the investment up to July 31, 1964 of the \$10 million paid into the special non-interest-bearing account, was deposited in the same account. In order to provide funds for the second deposit the Corporation, on the instructions of the Department of Finance, sold Government of Canada securities and in so doing incurred a loss of \$661,000. This loss has been charged to the Corporation's earned surplus.

In last year's Report reference was made to the decision of the Board of Directors to transfer the total of the Corporation's earned surplus, together with the excess of income over expense for the year ended December 31, 1964, to the Underwriting Reserve and to show the Reserve on the balance sheet of the Corporation as a liability reserve in the amount of \$9,719,000 as at December 31, 1964. We stated that the Corporation was giving further consideration to our opinion that the Reserve was general in nature and should have been included in the capital or shareholders' equity section of the balance sheet. The Board of Directors has since directed that the Reserve be reinstated in its former amount of \$5 million and this has now been established to provide for losses on contracts of insurance entered into under section 14 of the Act. We are advised that the Board will give consideration in future years to the Corporation's liability position under its outstanding contracts of insurance for the purpose of determining any further amounts which might require to be credited to the Underwriting Reserve from the year's operations or from earned surplus. The balance of the Reserve was restored to earned surplus with effect from December 31, 1965.

205. Farm Credit Corporation. This Corporation was established in 1959 by the Farm Credit Act, 1959, c. 43, to succeed the Canadian Farm Loan Board which had operated since 1929. The purpose of the Corporation is to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Machinery Syndicates Credit Act, 1964-65, c.29, which authorizes the making of loans to qualified

syndicates of three or more farmers for the purchase of farm machinery for their co-operative use. The head office of the Corporation is in Ottawa and there are 7 branch, 28 district and 127 field offices throughout Canada.

The Government of Canada paid a further \$5,750,000 into the capital of the Corporation during the year and advanced an additional \$141,327,000 (net) by way of loans. At March 31, 1966 the equity of the Government in the Corporation amounted to \$605,672,000 comprising: capital, \$22,750,000; loans, \$565,668,000 (of which \$939,000 was in respect of the Farm Machinery Syndicates Credit Act); accrued interest on loans, \$15,618,000; reserve for losses under the Farm Credit Act, \$1,612,000; and retained earnings from operations under the Farm Machinery Syndicates Credit Act, \$24,000.

During the year, 11,049 loans were made to farmers to a total of \$201,688,000 compared with 9,845 loans amounting to \$139,751,000 made in the previous year. Repayments of principal amounted to \$58,891,000, an increase of \$21,532,000 over the previous year. Loans outstanding at March 31, 1966, with accrued interest, amounted to \$603,081,000 compared with \$455,905,000 at March 31, 1965. Loans outstanding under the Farm Machinery Syndicates Credit Act, which came into force on December 11, 1964, amounted to \$902,000 at March 31, 1966 compared with \$54,000 at March 31, 1965.

The following is a comparative summary of the income and expense of the Corporation for the past two years:

	Year ended March 31	
	1966	1965
<u>Operations under the Farm Credit Act</u>		
Income—		
Interest earnings	\$ 25,890,000	\$ 19,786,000
Deduct: Interest on loans from the Government of Canada	23,525,000	17,169,000
	<u>2,365,000</u>	<u>2,617,000</u>
Appraisal, supervision and legal fees	1,103,000	828,000
	<u>3,468,000</u>	<u>3,445,000</u>
Expense—		
Salaries and employee benefits	3,505,000	3,116,000
Travel	434,000	327,000
Office accommodation	251,000	222,000
Postage, express, telephone and telegraph	101,000	94,000
Printing, stationery and office supplies	99,000	93,000
Rental and maintenance of office equipment	53,000	55,000
Appeal Boards—fees and expenses	25,000	—
Management consultants' fees	18,000	12,000
Depreciation	37,000	36,000
Other	41,000	70,000
	<u>4,564,000</u>	<u>4,025,000</u>
Less: Portion allocated to operations under the Farm Machinery Syndicates Credit Act	66,000	50,000
	<u>4,498,000</u>	<u>3,975,000</u>
Net operating loss, provided for by parliamentary appropriation .	\$ 1,030,000	\$ 530,000

	Year ended March 31, 1966	December 11, 1964 to March 31, 1965
Operations under the Farm Machinery Syndicates Credit Act		
Income—		
Interest (net) and service charges	\$ 15,000	\$ 1,000
Amount appropriated by Parliament for carrying out the purposes of this Act	75,000	50,000
	90,000	51,000
Portion of Corporation's expenses allocated to operations under this Act	66,000	50,000
Excess of income over expense transferred to retained earnings	\$ 24,000	\$ 1,000

With respect to the operations under the Farm Credit Act, the increase of \$523,000 in expense for the year ended March 31, 1966 was due largely to the continuation of the growth in lending activity and the consequent expansion of the Corporation which has resulted in an increase in staff from 183 at March 31, 1960 to 529 at March 31, 1965 and 571 at March 31, 1966. During the same period the number and principal of loans outstanding increased from 28,000 and \$117,000,000 to 53,000 and \$586,000,000.

In our report to the Minister of Agriculture under section 87 of the Financial Administration Act, on the examination of the accounts of the Corporation for the year ended March 31, 1966, reference was made to the reduction in the Reserve for Losses during the past six years, due in part to the statutory obligation placed on the Corporation to lend money at a fixed rate, as follows:

Section 15 of the Farm Credit Act requires the Corporation to establish a Reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this Reserve until the amount of the Reserve equals the capital of the Corporation. At March 31, 1966 the capital of the Corporation amounted to \$22,750,000 while the Reserve amounted to \$1,611,529, having been reduced by \$32,998 due to losses written off during the year.

As previously pointed out, the statutory lending rate of 5% on loans to farmers has not provided sufficient income to cover the interest paid on borrowings from the Government of Canada and administrative expenses applicable to loans made at this rate. The annual excess of expense over income is now being met each year by parliamentary appropriation. The operating loss of \$1,029,998 for the year ended March 31, 1966, compared with a loss of \$529,694 for the previous year, was recovered from Department of Agriculture Vote 90e.

While continuation of the policy of providing a parliamentary appropriation to cover the annual operating loss of the Corporation will prevent further depletion of the Reserve by such losses, no provision has been made for the building up of the Reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

A 1964 amendment to the Farm Credit Act increased the amount that a single farming enterprise may borrow under Part II of the Act from \$20,000 to \$40,000 and under Part III of the Act from \$27,500 to \$55,000. The interest rate of 5% per annum

remains unchanged on amounts loaned by the Corporation up to the previously existing limits of \$20,000 and \$27,500, but the interest rate to be charged on moneys loaned in excess of these amounts may from time to time be prescribed by the Corporation with the approval of the Governor in Council "which rate shall be sufficient, if the whole amount of the loan were to be loaned by the Corporation at that rate, to return to the Corporation an amount equal to the cost to the Corporation of any money borrowed for the purposes of the loan and the expenses of the Corporation in respect thereof, including a reasonable reserve against loss."

The interest rate on moneys loaned under the increased limits was $6\frac{3}{8}\%$ per annum up to August 8, 1966 when it was raised to $6\frac{3}{4}\%$. Since these rates apply only to the portion of any loan in excess of \$20,000 or \$27,500, as the case may be, the operations of the Corporation will continue to result in an annual operating loss.

206. *The National Battlefields Commission.* This Commission, constituted by the National Battlefields at Quebec Act, 1908, c. 57, with the objects of acquiring and preserving the historic battlefields at Quebec, consists of nine members, seven of whom are appointed by the Governor in Council and one each by the Province of Ontario and the Province of Quebec.

Prior to 1958 the Commission was financed by statutory grants made from time to time under the constituting Act, but it has since been financed by annual parliamentary appropriations. At March 31, 1966 the proprietary equity of the Crown in the Commission amounted to \$1,538,000, an increase of \$35,000 during the year, comprising capital assets costing \$1,515,000 and working capital of \$23,000.

The following is a summary of the expenses of the Commission for the years ended March 31, 1966 and 1965:

	Year ended March 31	
	1966	1965
Salaries, wages and related expenses	\$ 164,000	\$ 164,000
Policing services	19,000	31,000
Repairs of roads, driveways and buildings	15,000	25,000
Light, heat, power, gasoline and oil	14,000	15,000
Operating supplies and nursery stock	10,000	16,000
Special weed treatment for lawns	8,000	—
Souvenir pamphlet	4,000	—
Other	8,000	9,000
	<hr/>	<hr/>
	242,000	260,000
Reconstruction of Martello Tower No. 4	—	42,000
Capital outlays	12,000	25,000
	<hr/>	<hr/>
	\$ 254,000	\$ 327,000
	<hr/>	<hr/>

The income of the Commission, consisting of \$275,000 appropriated by Parliament and \$2,000 of miscellaneous income, exceeded its expenses by \$23,000 in 1965-66. This

amount together with \$12,000 of capital outlays accounts for the increase of \$35,000 in the proprietary equity of the Crown in the Commission.

The souvenir pamphlet expense of \$4,000 became non-productive when the printing of the pamphlet advertising the Park was interrupted because of the resignation of the Chairman whose name and signature appeared thereon. After the appointment of the new Chairman the printing was to be resumed but it was found that the paper had shrunk in the intervening months and had to be scrapped. The pamphlet is being reprinted at a cost of \$10,800.

Funds contributed by the provincial governments and others in the years following establishment of the Commission in 1908, which may be used only for the acquisition of land with prior parliamentary approval, amounted to \$33,000 at March 31, 1966. The only transactions in the account since 1938 have been credits from interest earnings.

It has been the practice for the Park Superintendent to initiate the expenditures of the Commission and for payments to be approved by the Secretary of the Commission. However, due to the ill health of the Park Superintendent, most of the expenditures in the past two years have been incurred on the sole authority of the Secretary. Furthermore, tenders for contracts for maintenance projects were not invited by public advertisement. Among the contracts awarded was one amounting to \$20,829 covering street paving and the construction of sidewalks and curbs which was not reported to the Treasury Board (being in excess of \$10,000) as is required by section 8 of the Government Contracts Regulations.

207. *National Capital Commission.* This Commission was established by the National Capital Act, 1958, c. 37, to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission, 1899.

The objects and purposes of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites. The Commission consists of 20 members appointed by the Governor in Council from across Canada.

At March 31, 1966 the proprietary interest of the Government of Canada in the Commission, including loans, totalled \$135,492,000 represented by: cash, \$140,000; inventories of tools, equipment and supplies, \$214,000; and capital assets at cost, \$135,138,000.

The Commission's activities are financed by annual parliamentary appropriations, withdrawals from the National Capital Fund and loans from the Government of Canada,

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along with revenues from rentals, etc. A summary of the expenditure and other transactions for the past two years is as follows:

	Year ended March 31	
	1966	1965
Operation and maintenance of parks, parkways and grounds adjoining government buildings at Ottawa and Hull, maintenance of other properties and general administration		
Expenditure	\$ 3,969,000	\$ 3,628,000
Provided for by—		
Parliamentary appropriation	\$ 3,781,000	\$ 3,390,000
Revenue	188,000	238,000
	<u>\$ 3,969,000</u>	<u>\$ 3,628,000</u>
National Capital Fund		
Balance at April 1—		
In the Consolidated Revenue Fund	\$ 425,000	\$ 6,425,000
In the hands of the Commission	1,750,000	986,000
	<u>2,175,000</u>	<u>7,411,000</u>
Parliamentary appropriation	12,100,000	4,500,000
Proceeds from sales of property	1,029,000	425,000
	<u>15,304,000</u>	<u>12,336,000</u>
Expenditure—		
Capital outlays for parks, parkways, railway lines and structures, etc.	12,347,000	7,181,000
Repayment of loans to acquire property now in use—Queensway, Ottawa River Parkway, Sussex Drive (1965-Queensway)	1,289,000	2,529,000
Maintenance of land and rehabilitation works	193,000	112,000
Contributions to the City of Ottawa and other municipalities to- wards the cost of constructing roads, bridges, sewers, etc.	646,000	339,000
	<u>14,475,000</u>	<u>10,161,000</u>
Balance at March 31—		
In the Consolidated Revenue Fund	1,625,000	425,000
In the hands of the Commission	(796,000)	1,750,000
	<u>\$ 829,000</u>	<u>\$ 2,175,000</u>
Acquisition of property in the National Capital Region through loans provided by the Government of Canada		
Unexpended balance of loans at April 1	\$ 1,259,000	\$ 383,000
Add:		
Government of Canada loans (net)	7,478,000	6,865,000
Amount recovered from the National Capital Fund with respect to properties put into use	1,289,000	2,529,000
Proceeds from sales of property	1,733,000	1,906,000
	<u>11,759,000</u>	<u>11,683,000</u>
Deduct:		
Expenditure for acquisition of property	11,619,000	10,424,000
Unexpended balance of loans at March 31	<u>\$ 140,000</u>	<u>\$ 1,259,000</u>

	Year ended March 31	
	1966	1965
<u>Interest charges on outstanding Government of Canada loans</u>		
Interest on loans	\$ 3,254,000	\$ 2,858,000
Provided for by—		
Parliamentary appropriation	\$ 2,741,000	\$ 2,464,000
Net revenue from rentals of property and interest earnings	513,000	394,000
	<u>\$ 3,254,000</u>	<u>\$ 2,858,000</u>

The expenditures incurred in the various activities of the Commission, as summarized above, totalled \$33,317,000 compared to \$27,071,000 in the preceding year and were financed as follows:

	Year ended March 31	
	1966	1965
Parliamentary appropriations	\$ 19,968,000	\$ 15,590,000
Loans to the Commission	11,619,000	10,424,000
Proceeds from sales of property—National Capital Fund	1,029,000	425,000
Revenues of the Commission	701,000	632,000
	<u>\$ 33,317,000</u>	<u>\$ 27,071,000</u>

A revised capital budget of the Commission which provided for expenditures of \$24,044,000 in 1965-66 was approved by the Governor in Council pursuant to section 80 of the Financial Administration Act. It was stipulated in the approved budget that expenditures in respect of certain items might exceed amounts shown by not more than 10% without further approval, provided that the prescribed total for each budget grouping was not exceeded. The accounts of the Commission show that of the total capital expenditures for the year of \$23,685,000, the expenditures for one grouping exceeded the authorized total of \$11,625,000 by \$1,498,000 and included two major items, the approved limits for which were exceeded by a total of \$567,000.

Department of Public Works Vote L70 provided for loans to the Commission of \$9,000,000 for the purpose of acquiring property in the National Capital Region, excluding property being acquired for the Greenbelt. These loans together with funds on hand at April 1, 1965 provided a total of \$9,449,000 for these property acquisitions. During the year the total expenditure incurred by the Commission on these properties amounted to \$10,082,000, or \$633,000 in excess of the funds available.

The Public Accounts Committee gave further consideration during the year to the practice of requiring the National Capital Commission to seek parliamentary appropriations to enable it to pay interest on loans obtained from the Minister of Finance for the purchase of properties. In its Seventh Report 1966 (see Appendix 1, items 19 and 41) the Committee noted the undertaking of the Department of Finance to review and dis-

cuss this practice with the Auditor General and asked that he report on the matter in due course. Loans from the Minister of Finance totalled \$67,329,000 at March 31, 1966. Interest charges in 1965-66 amounted to \$3,254,000 of which \$2,741,000 was provided by Department of Public Works Vote 60. (See paragraph 172 of this Report.)

208. National Harbours Board. This Board was established in 1936 by the National Harbours Board Act, R.S., c. 187, and has jurisdiction over the harbours of St. John's, Nfld., (established as a national harbour on January 1, 1965), Halifax, N.S., Saint John, N.B., Chicoutimi, Que., Quebec, Que., Trois-Rivières, Que., Montreal, Que., (including the Jacques Cartier and Champlain Bridges), Churchill, Man., and Vancouver, B.C., together with grain elevators at Prescott, Ont., and Port Colborne, Ont. The head office of the Board is in Ottawa.

The proprietary equity of the Government of Canada at December 31, 1965 totalled \$520,173,000 comprising: equity represented by the cost of assets transferred to the Board on its establishment and subsequently, \$70,344,000; loans and advances \$323,212,000; interest in arrears on loans and advances, \$93,286,000; and reserves, \$116,875,000; less the accumulated deficit of \$83,544,000.

The value of the Port and Harbour of St. John's, excluding land, was recorded at \$10,086,000 as of January 1, 1965, being the estimated net book value at the time it became a national harbour upon transfer from the Department of Public Works. The estimated value of the land is to be recorded when the identification of the land and water lots has been completed.

During the year there was an increase of \$3,118,000 in the indebtedness of the Board for loans and advances and \$7,082,000 for interest in arrears. In previous Reports we have pointed out that there was little prospect of the Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. Proposals have been under study by the Board and by the Department of Finance but no decision has yet been reached.

Current assets of the Board included the sum of \$348,000 due from the Quebec Natural Gas Corporation for rental charges by the Board for the easement for a 20-inch natural gas pipeline over the Jacques Cartier Bridge. The amount represents \$243,000 outstanding on December 31, 1964 plus \$105,000 charged for 1965. In previous Reports we have noted that authority for the installation of the pipeline was granted by the Board on May 1, 1959 subject to later negotiation of the annual rental rate but that the Corporation subsequently would not agree to the rate proposed and requested the Board to consider one that was little more than nominal. In 1965, the Board instructed the Department of Justice to institute legal proceedings against the Corporation.

Until revocation of tolls on June 1, 1962, the Jacques Cartier Bridge was operated under a tri-partite agreement which required the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operations of the Bridge to a maximum of \$150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness

amounted to \$744,425. From 1950 until revocation of tolls, the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. In previous Reports we observed that the settlement of this claim and the transfer of this Bridge to the Province had been the subject of negotiations between the Board and the Province. No further progress was made during the year.

Reference has been made in previous Reports to the dispute between the Board and the Canadian Pacific Railway regarding the ownership of certain areas of Coal Harbour, Vancouver. Title to the areas involved has been in dispute since 1880. After several meetings over an extended period between officials of the Board and of the Railway a basis of settlement is now embodied in a "Memorandum of Agreement" between the two parties. Order in Council P.C. 1966-1248 of June 30, 1966 authorized the Board to implement the terms of the Agreement, which should lead to a final settlement of this long-standing dispute. In the meantime, the Railway continues to collect rentals and other revenue from certain areas in its possession while the Harbour authorities do likewise in respect of the disputed areas occupied by the Board. At December 31, 1965 the Board held \$182,000 in trust while the Railway held \$272,000.

The following is a summary of the operations of the harbours and elevators and of the bridges for the past two years:

	Year ended December 31	
	1965	1964
<hr/>		
Harbours and Elevators		
<hr/>		
Operating income—		
Harbours	\$ 4,735,000	\$ 4,597,000
Wharves and piers	12,390,000	10,474,000
Grain elevator systems	10,454,000	9,423,000
Cold storage systems	1,293,000	1,315,000
Permanent sheds	2,796,000	2,206,000
Railway systems	927,000	863,000
Miscellaneous services	1,494,000	1,224,000
	<hr/>	<hr/>
	34,089,000	30,102,000
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Operating and administrative expenses—		
Harbours	5,255,000	4,411,000
Wharves and piers	1,078,000	946,000
Grain elevator systems	6,504,000	6,349,000
Cold storage systems	1,171,000	1,144,000
Permanent sheds	1,563,000	1,438,000
Railway systems	1,055,000	1,063,000
Miscellaneous services	1,520,000	1,344,000
Administrative expenses	2,966,000	2,558,000
	<hr/>	<hr/>
	21,112,000	19,253,000
<hr/>		
Net operating income	12,977,000	10,849,000

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	Year ended December 31	
	1965	1964
Other income—		
Income from investments	\$ 2,514,000	\$ 2,491,000
Miscellaneous	243,000	338,000
	<u>15,734,000</u>	<u>13,678,000</u>
Special charges—		
Provision for interest on loans and advances	9,445,000	9,392,000
Provision for replacement of capital assets	5,155,000	4,803,000
Other	453,000	464,000
	<u>15,053,000</u>	<u>14,659,000</u>
Net income (loss)	<u><u>\$ 681,000</u></u>	<u><u>\$ (981,000)</u></u>
 Bridges		
Operating income—		
Jacques Cartier Bridge	\$ 129,000	\$ 159,000
Champlain Bridge	991,000	625,000
	<u>1,120,000</u>	<u>784,000</u>
Operating expenses—		
Jacques Cartier Bridge	362,000	294,000
Champlain Bridge	454,000	408,000
	<u>816,000</u>	<u>702,000</u>
Net operating income	<u>304,000</u>	<u>82,000</u>
Special charges—		
Provision for interest on loans and advances	1,734,000	1,620,000
Provision for replacement of capital assets	511,000	508,000
Settlement of claim by lessor of toll-collecting equipment	—	279,000
Other	68,000	72,000
	<u>2,313,000</u>	<u>2,479,000</u>
Net loss	<u><u>\$ 2,009,000</u></u>	<u><u>\$ 2,397,000</u></u>

Tariff rates were increased during 1965 and water-borne cargo-tonnage surpassed that of 1964 by 1,909,000 tons. As a result, with the exception of the Port Colborne elevator, revenue increased at all locations. The decrease of \$28,000 in revenue at Port Colborne resulted from reduced receipts of eastern grain due to crop damage caused by adverse weather conditions.

Foreign inward traffic, which increased by 2,515,000 tons, provided the major increase in cargo-tonnage, but this was partly offset by a decrease of 863,000 tons in wheat exports. The large increase in foreign inward traffic is mainly attributable to increased tonnages handled of: fuel oil at Halifax, Saint John, Quebec, Trois-Rivières and Montreal, totalling

1,192,000 tons; crude oil at Montreal, 544,000 tons; steel bars and rods at Montreal, 139,000 tons; and plate sheet metal at Vancouver, 114,000 tons. The decrease in wheat exports was mainly due to a reduction in deliveries to the U.S.S.R. and China which reached their peak in 1964, as well as labour disputes in Montreal and Vancouver which hampered shipments of grain at these ports.

All tolls and charges in respect of passage of vehicles over the Jacques Cartier Bridge were revoked as of June 1, 1962. Traffic across the Champlain Bridge increased from 3,914,000 vehicles in 1964 to 6,379,000 vehicles in 1965 due mainly to the opening of a second approach to the Bridge in December 1964.

The increases in operating expenses were due, in part, to greater cargo-tonnage handled and to certain expenditures incurred during 1965 which had no counterpart in 1964. Grants to municipalities were greater by \$597,000 due to an increase in the payments to 50% of what would be payable under the Municipal Grants Act formula as authorized by Order in Council P.C. 1964-1/1428 of September 11, 1964. At Quebec, \$221,000 was spent on major repairs to the grain elevator and cold storage warehouse. In Vancouver, expenditures of \$99,000 were required to operate and maintain facilities taken over from the Department of National Defence in 1964 and outlays for security and snow removal were higher by \$51,000. Operating expenses at St. John's, included for the first time, amounted to \$51,000.

The increased administrative expenses resulted mainly from certain expenditures in 1965 having no counterpart in the previous year: administrative expenses at St. John's, Nfld., \$55,000; expenses of the labour dispute, Montreal, \$189,000; and hydraulic model study of Burrard Inlet, Vancouver, \$41,000.

In June 1964 the Board acquired three sheds in Vancouver from the Department of National Defence. Five months later one roof collapsed and others suffered considerable damage from exceptionally heavy quantities of snow. The necessary reconstruction cost \$404,000 in 1965. It should be noted, however, that according to a Board engineering report, the roof beams had been designed in accordance with the building codes in effect at the time of construction in 1944 when construction steel was in short supply and building codes took this into consideration. An estimated \$135,000 of potential revenue was lost due to the reduction in rentals received during the reconstruction of the damaged roofs.

In last year's Report we noted that the Board was required to pay workers for "dip-time", the initial stage of unloading a grain vessel when only mechanical devices are used. During 1965 the workers continued to be paid for this time in accordance with the collective bargaining agreements between the Board and the labour unions at Port Colborne and Prescott. The new agreement with the union at Prescott, entered into in 1965 for another two years, includes a similar provision.

209. Northern Canada Power Commission. This Commission, established in 1948 under the Northern Canada Power Commission Act, R.S., c. 196, consists of three members appointed by the Governor in Council. The objects of the Commission are to

construct and operate electric power plants and to supply power to mines and other users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Commission, with its head office in Ottawa, operates hydro-electric plants at Mayo, Y.T., Whitehorse, Y.T., Snare River, (Yellowknife) N.W.T. and a newly commissioned plant on the Taltson River near Fort Smith, N.W.T. Thermal-electric stations are operated at Fort Resolution, Fort Simpson, Inuvik, Fort McPherson, Aklavik and Frobisher Bay, N.W.T., Field, B.C., and Moose Factory, Ont.

The proprietary equity of the Government of Canada in the Commission, at the end of the past two years, follows:

	March 31	
	1966	1965
Advances, including \$50,000 for investigation of projects	\$ 30,749,000	\$ 28,142,000
Equity represented by cost of:		
Central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., financed by parliamentary appropriation ..	7,003,000	7,003,000
Extension, expansion and improvements of capital assets financed from earnings	560,000	315,000
Reserve for contingencies	2,141,000	2,020,000
Earned surplus	1,477,000	1,274,000
	<u>\$ 41,930,000</u>	<u>\$ 38,754,000</u>

The Commission also acts as agent for the Government of Canada in respect of loans made under the Atlantic Provinces Power Development Act, 1957-58, c. 25, and in this capacity made advances to the provincial power commissions of Nova Scotia, Newfoundland and New Brunswick. Outstanding loans totalled \$35,632,000.

The following is a summary of the income and expense of the Commission for the past two years:

	Year ended March 31	
	1966	1965
Income—		
Sales of power	\$ 3,320,000	\$ 3,111,000
Income arising from construction, maintenance and operation of facilities for government departments and others	1,037,000	966,000
Sales of heat	733,000	734,000
Miscellaneous	209,000	205,000
	<u>5,299,000</u>	<u>5,016,000</u>
Expense—		
Operating and maintenance	3,104,000	2,887,000
Administrative	321,000	301,000
Interest on advances from the Government of Canada	731,000	751,000
Depreciation (equivalent to repayment of principal of advances from the Government of Canada)	575,000	549,000
	<u>4,731,000</u>	<u>4,488,000</u>
Net income	<u>\$ 568,000</u>	<u>\$ 528,000</u>

The increase in income from sales of power was due mainly to the revenue derived from the new hydro-electric plant on the Taltson River which commenced operating in October 1965.

Operating and maintenance expenses increased because of salary increments, an increase in the tax on diesel fuel and the initial operating costs of the new Taltson River plant.

210. *Northern Ontario Pipe Line Crown Corporation.* This Corporation was established by the Northern Ontario Pipe Line Crown Corporation Act, 1956, c.10, for the purpose of constructing the Northern Ontario section of the all-Canadian natural gas pipe line and leasing it (subject to approval by the Governor in Council) to Trans-Canada Pipe Lines Limited, with an option to purchase.

In due course the pipe line was constructed and leased with an option to purchase. The option was exercised and sale of the Northern Ontario section of the all-Canadian natural gas pipe line to Trans-Canada Pipe Lines Limited was completed on May 29, 1963. The purchaser assumed responsibility for the negotiation and settlement of all claims then outstanding and of any other claims which might arise in the future. Upon receipt of payment the Corporation discharged its liability to the Government of Canada for outstanding loans and interest accrued thereon, and was left with a surplus of \$694,000 of which \$690,000 remained on deposit with the Receiver General at the close of the Corporation's financial year on December 31, 1965. Action is now being taken to wind up the affairs of this Corporation.

211. *Northern Transportation Company Limited.* This Company is a wholly-owned subsidiary of Eldorado Mining and Refining Limited. Northern Transportation Company (1947) Limited was incorporated as a private company by letters patent dated November 27, 1947 under the provisions of the Canada Corporations Act, R.S., c.53, to take over the business of a predecessor company which had been incorporated under a Province of Alberta charter in 1934 and whose shares had been acquired when the capital stock of Eldorado Mining and Refining Limited was expropriated by the Crown in 1944. The corporate name was changed to Northern Transportation Company Limited by supplementary letters patent dated August 19, 1952.

The Company is authorized by its letters patent to carry on a general transportation business by land and water throughout Canada and elsewhere. Although the head office of the Company is in Ottawa, administrative headquarters are in Edmonton and activities have been almost wholly confined to the Mackenzie River water system and the Western Arctic.

On April 29, 1965 the Company acquired all the capital stock of three companies, Yellowknife Transportation Company Limited, Arctic Shipping Limited and Decury Supply Limited for \$1,630,000 and discharged mortgages and certain other liabilities of these newly acquired subsidiaries amounting to \$1,093,000.

The equity of Eldorado Mining and Refining Limited in the Company at December 31, 1965 was \$7,397,000 comprising capital stock of \$152,000, a reserve for insurance of \$1,250,000 and surplus of \$5,995,000.

Two cargo vessels, sixteen tugs and one hundred and fourteen barges were operated in 1965, an increase of one cargo vessel, six tugs and fourteen barges over the number operated during the previous year. Although the volume of business rose substantially, the net income from operations increased by only \$16,000. The consolidated result of operations of the Company and its subsidiaries for 1965 compared with that of the Company for 1964 follow:

	Year ended December 31	
	1965	1964
Income—		
Freight earnings	\$ 4,878,000	\$ 3,074,000
Expense—		
Operations and maintenance:		
Salaries and wages	1,296,000	871,000
Repairs and maintenance	769,000	411,000
Depreciation	633,000	222,000
Fuels and lubricants	299,000	179,000
Messing expense	204,000	136,000
Other	368,000	171,000
	3,569,000	1,990,000
Administrative	474,000	265,000
	4,043,000	2,255,000
Net income from operations	835,000	819,000
Miscellaneous income	86,000	170,000
	921,000	989,000
Provision for income tax	473,000	472,000
Net income	\$ 448,000	\$ 517,000

Consolidation of the operations of the newly acquired subsidiaries with those of the Company was the main reason for the increase of \$1,804,000 in freight earnings for 1965 over the preceding year. However, additional revenue was derived from the movement of oil drilling equipment to Richards Island and various other locations along the Mackenzie River and a general increase in south-bound traffic.

Salaries and wages increased \$425,000 due mainly to the commissioning of a cargo vessel and the acquisition of the fleet of the subsidiary companies. Repairs and maintenance increased \$358,000 due to large expenditures incurred to bring the equipment of the subsidiaries up to the standards of the parent Company. Depreciation increased by \$411,000 mainly as the result of a provision of \$134,000 on the new cargo vessel and the inclusion of \$267,000 provided on the assets of the newly acquired subsidiaries. All other major expense classifications increased significantly because of the greatly expanded operations resulting from the acquisition of these subsidiaries.

Miscellaneous income decreased \$84,000 which is more than accounted for by a reduction of \$86,000 in interest due to utilization of \$2,250,000 in short-term deposits for the acquisition of the subsidiary companies.

212. *Park Steamship Company Limited.* This Company was incorporated in 1942 under the Canada Corporations Act, R.S., c. 53, for the purpose of supervising the operation of Crown-owned cargo vessels. The "Park Fleet" was sold in 1946-47 and since then the transactions of the Company have been confined to the settlement of occasional claims for compensation by seamen for injuries sustained during previous service. The transactions were handled by staff of the Canadian Maritime Commission.

Claims for compensation ceased a number of years ago and in our previous Reports we have suggested that the Company's charter be surrendered. On January 6, 1965 the Governor in Council authorized the Company to be wound up and the Crown to assume the liability for possible claims. In compliance with an agreement dated October 1, 1965 between the Company and the Department of Transport, the Company ceased business and the assets of the Company were taken over and the liabilities were assumed by the Department as from that date. The application for surrender of the charter was accepted by the Secretary of State who fixed June 27, 1966 as the date upon which the Company was dissolved.

213. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Canada Corporations Act, R.S., c. 53, pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, 1939, c. 3. The Company produces synthetic rubbers and chemicals. Head office of the Company is in Sarnia, Ont. At December 31, 1965 there were three wholly-owned subsidiaries: Polysar Belgium N.V., Polysar Nederland N.V., and Polysar International S.A., and one subsidiary, Polymer Corporation (SAF), in which the parent Company held a 95% equity. In addition, the Company's investment as a minority shareholder in companies in Mexico and South Africa amounted to \$4,297,000 at December 31, 1965 compared to \$2,784,000 at the end of the previous year.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1965 amounted to \$96,245,000, consisting of capital stock of \$30,000,000 and retained earnings of \$66,245,000. During the year dividends of \$4,500,000 were paid to the Receiver General compared with \$4,000,000 in 1964.

Net additions to fixed assets during the year amounted to \$6,782,000. Major expenditures included additions at Sarnia to the stereo plant, the research building, the co-polymer unit, the resin facilities and improvements to the administration building. These expenditures were financed by the Company without the need of a parliamentary appropriation.

Long-term liabilities totalling \$21,519,360, payable in foreign currencies over the years 1966 to 1977, comprised: F.fr. 29,100,000 (\$6,390,360), B.fr. 450,000,000 (\$9,729,000), and U.S. \$5,000,000 (\$5,400,000).

The following is a summary of the operations of the Company and its subsidiaries for the past two years:

	Year ended December 31	
	1965	1964
Income—		
Sales	\$ 116,709,000	\$ 113,864,000
Other income	794,000	427,000
	<u>117,503,000</u>	<u>114,291,000</u>
Expense—		
Cost of sales	95,394,000	92,288,000
Selling, administrative and research expenses	9,194,000	8,268,000
	<u>104,588,000</u>	<u>100,556,000</u>
Net income before provision for income tax	12,915,000	13,735,000
Provision for income tax	2,584,000	4,293,000
	<u>10,331,000</u>	<u>9,442,000</u>
Net income before minority shareholder's interest	10,331,000	9,442,000
Minority shareholder's interest	28,000	(8,000)
	<u>\$ 10,303,000</u>	<u>\$ 9,450,000</u>

The increase in sales was achieved during a period of rapid growth in the synthetic rubber industry in many countries which resulted in greater competition and a decline in the price structure. Contributing factors to the increase in cost of sales, and selling, administrative and research expenses were the larger volume of sales, initial high production costs of new products and products from new facilities, and increased activity in research and development. In computing taxable income, the Company has claimed the maximum capital cost allowance permitted under the Income Tax Act and, as a result, payment of income tax totalling \$4,710,000 has been deferred until future years when depreciation charges may be in excess of capital cost allowances.

214. The St. Lawrence Seaway Authority. Established by the St. Lawrence Seaway Authority Act, R.S., c.242, the Authority maintains and operates the Canadian section of the 27-foot deep waterway between the Port of Montreal and Lake Erie. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. Toll revenues derived from the operation of the St. Lawrence Seaway are divided between the two Seaway entities in accordance with an agreement approved by the Governments of Canada and the United States.

The Authority also operates non-toll canals at Lachine, Que., Cornwall, Ont., and Sault Ste. Marie, Ont., the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a president and two other members. Its head office is at Ottawa, with operating headquarters at Cornwall, Ont., and regional headquarters at St. Lambert, Que., and St. Catharines, Ont.

The Crown's equity at December 31, 1965 is shown on the Authority's balance sheet as follows:

Capital assets transferred from Department of Transport (Welland Canal)		\$ 130,717,000
Loans under section 25 of the Act—		
Interest-bearing	\$ 326,700,000	
Interest-free	52,500,000	
		379,200,000
Interest on loans—deferred		45,145,000
		555,062,000
Deduct: Deficit		42,199,000
		<u>\$ 512,863,000</u>

The following is a summary of the income and expense of the Authority for the past two years:

	Year ended December 31	
	1965	1964
Income—		
Tolls	\$ 15,480,000	\$ 13,544,000
The Seaway International Bridge Corporation, Ltd.—net income ..	165,000	199,000
Other	1,203,000	1,307,000
	<u>16,848,000</u>	<u>15,050,000</u>
Expense—		
Operation and maintenance	10,348,000	7,895,000
Regional administration	961,000	741,000
Headquarters administration	1,473,000	1,274,000
Engineering	1,160,000	833,000
	<u>13,942,000</u>	<u>10,743,000</u>
Less portion allocated to:		
Non-toll canals	370,000	355,000
Construction	1,158,000	785,000
	<u>1,528,000</u>	<u>1,140,000</u>
	<u>12,414,000</u>	<u>9,603,000</u>
Net operating income before providing for interest and for replacement of machinery and equipment	4,434,000	5,447,000
Interest on loans from Government of Canada	15,824,000	18,064,000
Provision for replacement of machinery and equipment	882,000	865,000
	<u>16,706,000</u>	<u>18,929,000</u>
Net loss	<u>12,272,000</u>	<u>13,482,000</u>
Deduct:		
Reversal in 1965 of provision for replacement of machinery and equipment of the Welland Canal	—	408,000
Welland Canal operating deficit recovered from parliamentary appropriations	8,175,000	7,994,000
	<u>8,175,000</u>	<u>8,402,000</u>
Deficit—Montreal-Lake Ontario Section	<u>\$ 4,097,000</u>	<u>\$ 5,080,000</u>

The extent by which revenues again fell short of meeting operating expenses, interest charges and provision for replacement of machinery and equipment in the Montreal-Lake Ontario Section of the Seaway is shown in the following summary of

the operating results for the year compared with the preceding year together with the cumulative operating results from the opening of the Seaway in 1959. It should be noted that the figures include no provision for repayment of the capital indebtedness of \$326,700,000 in respect of the Montreal-Lake Ontario Section which the St. Lawrence Seaway Authority Act requires to be paid out of earnings by December 31, 2009. If this obligation is to be met, revenues over the 44 years from 1966 to 2009 must average over \$22 million annually on the basis of 1965 costs. The revenues for 1965 were \$6 million short of meeting this requirement.

	Year ended December 31		Cumulative to December 31, 1965
	1965	1964	
Tolls	\$ 15,480,000	\$ 13,544,000	\$ 71,017,000
Other income	570,000	565,000	2,498,000
	<u>16,050,000</u>	<u>14,109,000</u>	<u>73,515,000</u>
Expenses of operation, maintenance and administration	3,513,000	3,287,000	18,498,000
Net operating profit	<u>12,537,000</u>	<u>10,822,000</u>	<u>55,017,000</u>
Interest on loans	15,752,000	15,445,000	91,291,000
Provision for replacement of machinery and equipment	882,000	457,000	5,925,000
	<u>16,634,000</u>	<u>15,902,000</u>	<u>97,216,000</u>
Deficit	<u>\$ 4,097,000</u>	<u>\$ 5,080,000</u>	<u>\$ 42,199,000</u>

Revenues on the Montreal-Lake Ontario Section for the seven full navigation seasons the Section has been open have amounted to \$74 million compared to the \$95 million which the Tolls Committees in 1958 anticipated would be earned during that period.

With the opening of the Seaway in 1959 the operation of the Welland Canal became a responsibility of The St. Lawrence Seaway Authority. Tolls intended to finance this operation had never proved sufficient to meet operating costs. By a decision of the Government the tolls were suspended in 1962. In 1965, Parliament approved the reimbursement to the Authority of the \$27 million deficit accumulated as at December 31, 1964 and indicated its intention to appropriate funds to cover the future operating losses of the Canal on a year-to-year basis. Borrowings were converted to interest-free loans. The following is a summary of the operating results for the past two years:

	Year ended December 31	
	1965	1964
Expenses of operation, maintenance and administration	\$ 8,901,000	\$ 6,316,000
Sundry income	798,000	941,000
Net operating loss	8,103,000	5,375,000
Interest on loans	72,000	2,619,000
Deficit recovered from parliamentary appropriations	<u>\$ 8,175,000</u>	<u>\$ 7,994,000</u>

The accumulated deficit of \$27,073,000 at December 31, 1964 was recovered in 1965 from Department of Transport Vote 107, and the \$8,175,000 deficit for 1965 was recovered in 1966 from Department of Transport Vote 107.

Interest-bearing loans of \$21.8 million were converted during the year to interest-free loans and additional interest-free loans of \$13.2 million to cover capital expenditures of the Authority on the Welland Section were obtained.

The agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the St. Lawrence Seaway. The agreement provided that the division of tolls revenue derived from the operation of the Montreal-Lake Ontario Section of the Seaway would be initially 71% to the Authority and 29% to the Corporation, provided, however, that these percentages would be adjusted from time to time so that the Authority and the Corporation would receive a portion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway.

Calculations made in 1963 indicated that the Authority should be receiving more than 71% and it sought a revision in the toll-sharing ratio. Calculations made on the basis of 1965 costs indicated that the Authority should be receiving 72.65% of the tolls and the Corporation, 27.35%. Negotiations were concluded in 1966 and the Authority and the Corporation agreed that, notwithstanding the provisions of the 1959 agreement that each entity would receive a proportion of the tolls in the ratio of their annual charges to their combined annual charges, the tolls would be divided 72% to the Authority and 28% to the Corporation, effective for and from the 1967 navigation season through the 1971 season and thereafter subject to review and further adjustment at the request of either party. If the tolls revenue for the 1965 season had been shared on the basis of the adjusted percentages, the Authority's portion would have been greater by \$218,000.

Under the 1959 agreement, the Authority and the Saint Lawrence Seaway Development Corporation were to report to their respective Governments by July 1, 1964 on the adequacy of the tariff of tolls to provide sufficient revenue to meet their operating costs and financial obligations. However, the Governments of Canada and the United States agreed to defer the date on which the entities were to report from July 1, 1964 to July 1, 1966. The Governments agreed that the joint review of the tariff of tolls should be continued and that, at the conclusion of the two-year extension, tolls proposals were to be related as realistically as possible to the financial requirements of the Seaway entities. Subsequently the Governor in Council approved an extension of the deferment of interest on loans from the Government of Canada for a further two-year period ending December 31, 1966, with payments to start on December 31, 1967. Interest so deferred amounted to \$45,145,000 at December 31, 1965.

Both the Canadian and American Seaway entities have reported to their respective Governments the level of tolls they believe to be necessary to meet their operating costs and financial obligations. However, no change in the tariff of tolls has yet been announced.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in section 16 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the required amortization over the fifty-year period of the principal of the amounts borrowed together with interest meets the requirements of this section. Accordingly, no provision for depreciation has been included in the costs of the year.

As in previous years, provision was made during the year towards the cost of replacing lock, bridge and building machinery and equipment of the Montreal-Lake Ontario Section. However, the basis for calculating the provision was changed retroactively from a cost basis to an estimated replacement cost basis. This resulted in a charge to Deficit of \$2,199,000 representing the additional provision with respect to the years 1959 to 1964. The provision for 1965 on this basis amounted to \$882,000, bringing the accumulated provision for replacement of machinery and equipment at December 31, 1965 to \$5,766,000.

No provision was made in 1965 for replacement of machinery and equipment for the Welland Section, and the accumulated provision for past years, \$2,131,000, was reversed and credited to Deficit.

The following items dealt with in our 1965 Report still remain unsettled:

- (a) In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute \$250,000 towards the cost of extending the collector sewer which was then being constructed as the main part of the Authority's remedial works on the south shore of the St. Lawrence River. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the \$250,000 contribution. The sewer extension was completed in 1963 at a cost of \$480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties.
- (b) The Beauharnois Canal, constructed by the Beauharnois Light, Heat and Power Company, was conveyed to the Crown in 1932 with the Company, which has since been taken over by the Quebec Hydro-Electric Commission, retaining responsibility for certain operating and maintenance expenses of the Canal. The Canal became part of the St. Lawrence Seaway in 1959. The Authority has not been reimbursed its maintenance expenses on the Canal since 1962 as the Commission takes the stand that it is not responsible for these costs because of provincial legislation passed in 1962 which dissolved the Beauharnois Light, Heat and Power Company. Settlement of the issue continues to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and capital expenditure relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1965	1964
Expense—		
Operation and maintenance	\$ 1,620,000	\$ 1,837,000
Grants in lieu of municipal taxes	246,000	421,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals	370,000	355,000
	<u>2,236,000</u>	<u>2,613,000</u>
Income from rentals, wharfage, etc.	628,000	635,000
Operating deficit	1,608,000	1,978,000
Capital expenditure	83,000	303,000
Operating deficit and capital expenditure recovered from parliamentary appropriations	<u>\$ 1,691,000</u>	<u>\$ 2,281,000</u>

The decrease of \$377,000 in expense for 1965 was due mainly to reductions of \$175,000 in grants paid to municipalities in lieu of taxes, of \$104,000 in major maintenance expense, and of \$67,000 in salaries and employee benefits.

Properties transferred in 1959 from the jurisdiction of the Department of Transport to that of the Authority included "that portion of the Ontario-St. Lawrence Canals remaining in service after the flooding of the pool above the power dam at Cornwall". No former canal remains in service above the dam, but the Authority, for the convenience of the Department, administers certain properties above the dam and charges the expenditures incurred to the appropriation provided to the Authority for the operation of the non-toll canals. The major expenditure, amounting to approximately \$6,000 annually, is for grants paid to three municipalities in lieu of taxes.

The Public Accounts Committee examined the annual financial statements of the Authority for the years ended December 31, 1963 and December 31, 1964, discussing these with the President and senior officers of the Authority on May 10, 1966. In its Third Report 1966 the Committee reported to the House on June 28, 1966 as follows:

This was the first occasion on which the Committee has had members or officers of the Authority before it as witnesses and the members of the Committee are now much more familiar with the operations of The St. Lawrence Seaway Authority and appreciate very much the considerable amount of information which was given to them by the witnesses.

The Committee was pleased to learn that the Authority enjoys good relations with departments of government and is satisfied with the organization of its finances notwithstanding the fact that revenues have been less than anticipated, thus preventing the Authority from meeting all its obligations in its first six years of operation.

The Committee learned from the Authority that it was optimistic that, provided anticipated increases in traffic and tolls materialize, it would be able to meet its financial obligations without subsidy or other relief.

The Committee was concerned to learn of the transaction which is referred to in paragraph 125 of the Auditor General's 1965 Report which involved a piece of property expropriated in 1955 with the expropriation being abandoned early in 1956. Subsequently, a 96,000-barrel fuel oil storage tank was constructed on the land and there was a trespass on Crown property when an oil pipeline was laid across it to a dock without obtaining an easement. No action was taken concerning the trespass and the property, which apparently is essential to the eventual construction of all-Canadian Seaway, was purchased in April 1964 for \$282,000, which included \$132,000 for the oil storage tank.

The Committee has asked a subcommittee to inquire into this transaction and will report further when the report of the subcommittee is received.

The Committee was also concerned to learn that there had been an overpayment of \$130,000 in grants in lieu of taxes to the City of Cornwall over a period of five years, but it was advised that recovery would be made in five equal instalments from future grants in lieu of taxes. The Committee felt that the error of including one piece of land twice in the calculation of grants in lieu of taxes should have been detected and corrected much earlier and was pleased to have the assurance of the Authority that a survey had been made and that no other similar cases existed.

215. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Canada Corporations Act, R.S., c. 53. pursuant to section

24A of the St. Lawrence Seaway Authority Act, R.S., c. 242, as a subsidiary of The St. Lawrence Seaway Authority for the purpose of operating and managing the international toll bridge between Cornwall, Ont., and Rooseveltown, N.Y., on behalf of the owners, The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Seaway entities have an equal interest in the assets of the Corporation and each has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Saint Lawrence Seaway Development Corporation, the annual income from operation of the bridge system, after payment of operating expenses, is to be applied first towards the amortization of the cost of the North Channel Bridge, together with interest, after which the balance of the income is to be divided equally between the Seaway entities.

The following is a summary of the Corporation's operations for the past two years:

	Year ended December 31	
	1965	1964
Income—		
Bridge tolls	\$ 381,000	\$ 371,000
Other	14,000	15,000
	<u>395,000</u>	<u>386,000</u>
Expense—		
Salaries, wages and employee benefits	135,000	119,000
Maintenance materials and services	25,000	11,000
Advertising	22,000	9,000
Rental of toll collection machines	13,000	13,000
Grant in lieu of municipal taxes	13,000	11,000
Other	22,000	24,000
	<u>230,000</u>	<u>187,000</u>
Net income—transferred to The St. Lawrence Seaway Authority	<u>\$ 165,000</u>	<u>\$ 199,000</u>

The amount of \$165,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost of the North Channel Bridge, together with interest, leaving an unamortized balance of \$9,433,000 at December 31, 1965. The amount transferred did not cover the interest charges of \$458,000 for the year on the indebtedness of the Authority with respect to the North Channel Bridge.

Departmental Operating Activities

216. Our Reports for several successive years have pointed out that although the Financial Administration Act requires that Crown corporations prepare specified statements of accounts annually, there is no statutory direction respecting the preparation of appropriate financial statements by departments and non-corporate agencies engaged in trading or servicing activities. Ordinarily, reporting has been limited to the inclusion of the revenue from such activities among the other items of revenue in the Public Accounts, while the expenditure reporting has been associated with the relevant parliamentary appropriations. Where Parliament has authorized the provision of revolving funds for the purpose of acquiring and managing stores, etc., statements summarizing the transactions relating to these advances are also included in the Public Accounts.

Our view, expressed annually for a number of years, is that clearer information concerning the actual financial results of departmental trading and servicing activities should be provided to Parliament. Without necessarily disturbing the bases of reporting presently followed, we have stressed the desirability of including in the Public Accounts, financial statements for the various activities showing the overall results of operations clearly and concisely. The statements contemplated would be on the accrual basis and include charges for the amortization of building and equipment costs, interest on funds employed, the value of services provided without charge by other departments, etc. Their form of presentation should enable a reconciliation to be made between the operating results on this basis and those recorded on the cash basis. Also contemplated is the preparation of balance sheets to show the year-end financial position of the activities. The Audit Office would be prepared to examine and certify such statements.

The Public Accounts Committee has supported this view. In its Fourth Report 1963 the Committee reiterated the belief previously expressed that "it would be desirable, in order that Members have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts provided this can be done without undue cost or staff increases". At the same time the Committee requested us "to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course". (See Appendix 1, item 2.)

The Royal Commission on Government Organization pointed out that the appropriation accounts kept on a cash basis do not adequately reflect the financial results of the operating activities carried on by many departments. The Commission recommended that the financial results of departmental operating activities be prepared and presented in a more informative manner, not only to assist Parliament but also to aid management in the control of its costs. The Commission also referred to advantages to be gained from the greater use of revolving funds for the financing of operating activities. It regarded business-type budgeting and reporting, including balance sheets, as natural corollaries of an operating fund system.

As a result of the Royal Commission's comments a study of the use of revolving funds in government service was undertaken. In April 1966 the Treasury Board issued a policy

statement on the establishment and use of revolving funds—to be known thereafter as “working capital funds”—and one type singled out involved those providing for the carrying out of a definite activity or program. Departmental managements were requested to inform the Board of circumstances where financing by a working capital advance would be advantageous. It was pointed out that the accounting system for an activity or program so financed should incorporate all costs associated with it, with common service costs to be included as memo items when no charge is made. The Board also stated that an annual report would be required in respect of each working capital advance including, where appropriate (a) a balance sheet, (b) a statement of operations, compared with the budget, and (c) a statement of the disposition of the surplus or deficit. As the intent is to publish this information in the departmental sections of the Public Accounts, implementation of the program should represent a long step towards reaching the objective which we have been advocating, with the support of the Public Accounts Committee.

The paragraphs which follow illustrate how a number of the larger departments and agencies involved in trading or servicing activities have already reached or are progressing towards the development of financial statements along the lines indicated.

217. Agricultural Products Board. This Board operates under the authority of the Agricultural Products Board Act, R.S., c.4, and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board’s activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

The proprietary equity of the Government of Canada at March 31, 1966 was \$10,000, represented by an inventory of 50,000 pounds of Sudan Sorghum Hybrid seed, at cost, \$9,000 and accounts receivable, \$1,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1966	1965
Sales	\$ 9,187,000	\$ 2,505,000
Cost of sales—		
Inventory as at April 1	747,000	453,000
Purchases	9,928,000	3,026,000
Storage and processing	60,000	71,000
Freight, cartage and handling	41,000	2,000
Repacking	39,000	—
	10,815,000	3,552,000
Less: Inventory as at March 31	9,000	747,000
	10,806,000	2,805,000
Net loss on sales	1,619,000	300,000

	Year ended March 31	
	1966	1965
Estimated cost of major services provided without charge by government departments—		
Interest on working capital	\$ 79,000	\$ 39,000
Accounting services	10,000	2,000
Administration	5,000	5,000
	<u>94,000</u>	<u>46,000</u>
Net loss for the year	\$ 1,713,000	\$ 346,000

An analysis of the loss, by commodities, excluding cost of services provided by other government departments, follows:

	Sales	Costs	Loss (Profit) on sales
Skim milk powder	\$ 5,519,000	\$ 6,420,000	\$ 901,000
Dry whole milk	2,091,000	2,614,000	523,000
Dry casein	800,000	875,000	75,000
Evaporated and condensed milk	480,000	549,000	69,000
Dried whole eggs	292,000	344,000	52,000
Sudan Sorghum Hybrid seed	5,000	4,000	(1,000)
	<u>\$ 9,187,000</u>	<u>\$ 10,806,000</u>	<u>\$ 1,619,000</u>

The net loss of \$1,713,000 was met to the extent of \$1,619,000 by funds provided by Department of Agriculture Vote 17, and to the extent of \$94,000 by government departments which provided major services without charge.

218. Agricultural Stabilization Board. The Agricultural Stabilization Board, consisting of three members appointed by the Governor in Council, was established by the Agricultural Stabilization Act, 1957-58, c.22, and has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilization measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. The Agricultural Commodities Stabilization Account established in the Consolidated Revenue Fund finances the activities of the Board. The net operating losses on the operations of the Account and administration expenses of the Board are met out of moneys appropriated by Parliament for the purpose.

The proprietary equity of the Government of Canada at the year-end was \$5,426,000 represented by inventories, consisting of 9,796,000 pounds of butter, at cost, \$5,302,000 and 1,533,000 pounds of pork, at estimated market value, \$271,000, offset in part by advances from customers and accounts payable, etc., aggregating \$147,000.

Increased domestic demand has reduced the stocks of butter by 34.8 million pounds from the 44.6 million pounds held on March 31, 1965. The inventory of pork decreased by 2.1 million pounds from 3.6 million pounds as a result of the sale of canned hams to the trade during the latter part of the year.

AUDITOR GENERAL'S REPORT

The results of the Board's activities for the year ended March 31, 1966 are summarized as follows:

Trading operations—			
Cost of products sold		\$	70,382,000
Revenue from sales			68,073,000
			<hr/>
Net loss on trading operations		\$	2,309,000
—by commodities—			
	Sales	Cost of sales	Net loss
	<hr/>	<hr/>	<hr/>
Butter ...	\$ 57,786,000	\$ 58,629,000	\$ 843,000
Cheese ...	9,780,000	10,846,000	1,066,000
Pork	507,000	907,000	400,000
	<hr/>	<hr/>	<hr/>
	\$ 68,073,000	\$ 70,382,000	\$ 2,309,000
	<hr/>	<hr/>	<hr/>
Deficiency payments—			
Sugar beets			4,033,000
Eggs			2,000,000
Wool			600,000
			<hr/>
			6,633,000
Payments for stabilization of prices—			
Butterfat content of milk and cream			28,455,000
Milk used for cheddar cheese			525,000
Dried casein and caseinates			167,000
			<hr/>
			29,147,000
Estimated cost of major services provided without charge by government departments—			
Interest on working capital			3,038,000
Administration			640,000
Accounting			185,000
Accommodation			31,000
Carrying of franked mail			18,000
Contributions to Public Service Superannuation Account			17,000
Employee surgical-medical insurance premiums			1,000
Employee compensation payments			1,000
			<hr/>
			3,931,000
			<hr/>
Net loss for the year		\$	42,020,000
			<hr/>

The loss for the year, together with the balance of the loss of \$1,318,000 brought forward from the previous year, was met to the extent of \$39,407,000 by funds provided by Department of Agriculture Vote 17e, and to the extent of \$3,931,000 by government departments which provided major services without charge.

219. Airport operations. The capital investment of the Department of Transport in airports as at March 31, 1966 was \$651,318,000 compared with \$629,007,000 at the end of the preceding year, a net increase of \$22,311,000.

The revenue from civil aviation airport operations for the year, together with comparable figures for the preceding year, follows:

	Year ended March 31	
	1966	1965
Aircraft landing fees—		
Domestic	\$ 4,355,000	\$ 3,822,000
Trans-oceanic	5,006,000	6,243,000
Trans-border	1,282,000	992,000
Other	21,000	27,000
	<u>10,664,000</u>	<u>11,084,000</u>
Rentals—		
Office, shop and garage space	2,609,000	2,298,000
Living quarters	355,000	364,000
Hangar	118,000	173,000
Other	1,277,000	1,189,000
	<u>4,359,000</u>	<u>4,024,000</u>
Concessions—		
Gasoline and oil	2,361,000	2,063,000
Other	3,669,000	3,160,000
	<u>6,030,000</u>	<u>5,223,000</u>
Miscellaneous revenue	2,755,000	2,110,000
Total revenue	<u>\$ 23,808,000</u>	<u>\$ 22,441,000</u>

The provision for "Airports and Other Ground Services—Operation and Maintenance" (included in Department of Transport Vote 30) was charged with expenditures totalling \$21,589,000 for the year 1965-66, a decrease of \$2,525,000 from the corresponding figure of \$24,114,000 for the preceding year. The excess of revenue received from airport operations over expenditure on airways and airports (excluding new construction) was therefore \$2,219,000, an increase of \$3,892,000 over the preceding year's excess of expenditure of \$1,673,000.

The results thus recorded are on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which would have to be taken into consideration if the actual net costs of civil aviation airport operations were to be determined. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for approximately 90% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes. A consolidation of these statements, which includes provision for depreciation of civil aviation facilities (though not for the other costs referred to), for the year ended March 31, 1966 is given as an appendix to the Department's section in Volume II of the Public Accounts.

220. Board of Grain Commissioners for Canada. This Board operates under the authority of the Canada Grain Act, R.S., c. 25, and consists of a chief commissioner and two other commissioners appointed by the Governor in Council. The Board has jurisdic-

tion to inquire into any matter relating to grading, weighing and storage of grain, unfair or discriminatory operation of any elevator, and any other matter arising out of the performance of the duties of the Board.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1966	1965
Expenditure—		
Salaries, allowances, etc.	\$ 4,851,000	\$ 4,465,000
Contributions to Public Service Superannuation Account ..	259,000	260,000
Rent	211,000	189,000
Travel	187,000	148,000
Printing and stationery	63,000	65,000
Other	298,000	330,000
	<u>5,869,000</u>	<u>5,457,000</u>
Revenue—		
Inspection fees	3,084,000	2,360,000
Weighing fees	1,493,000	1,159,000
Registration and cancellation fees	91,000	67,000
Licences	28,000	28,000
Sundry	20,000	4,000
	<u>4,716,000</u>	<u>3,618,000</u>
Excess of expenditure over revenue	<u>\$ 1,153,000</u>	<u>\$ 1,839,000</u>
Excess of expenditure over revenue provided by—		
Parliamentary appropriations:		
Department of Agriculture Vote 50	\$ 5,507,000	\$ 5,095,000
Canada Grain Act, R.S., c. 25, section 4	51,000	52,000
Government departments which provided major services without charge	311,000	310,000
	<u>5,869,000</u>	<u>5,457,000</u>
Less: Remittances to the Receiver General	<u>4,716,000</u>	<u>3,618,000</u>
	<u>\$ 1,153,000</u>	<u>\$ 1,839,000</u>

The increase of \$386,000 in salaries, allowances, etc., was due mainly to increments in rates of pay and additional casual and overtime wages paid as a result of the movement of larger quantities of grain. Rent at Fort William increased \$8,000 a year following the move to the new federal building on March 29, 1965. Monthly payments totalling \$12,500 were paid as rent of the vacated premises until the expiration of the lease on August 31, 1965 and therefore constitute non-productive expenditure.

The fees for all services were increased by 50% effective August 1, 1965 which accounts for the increase in revenue of \$1,098,000.

221. Canadian Government Elevators. The Canadian Government Elevators comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, which are operated by the Board of Grain Commissioners for Canada

under authority of section 166 of the Canada Grain Act, R.S., c. 25, and Order in Council P.C. 1372 of August 19, 1925.

The proprietary equity of the Government of Canada in the Elevators at March 31, 1966 was \$11,071,000 represented by: fixed assets, \$10,643,000; working capital, \$415,000; and advances for recoverable freight charges, \$13,000.

The following is a summary of the results of operations for the year with comparable figures for the preceding year:

	Year ended March 31	
	1966	1965
Operating revenue—		
Elevation	\$ 581,000	\$ 446,000
Storage	357,000	480,000
Drying	198,000	75,000
Screenings	143,000	102,000
Cleaning	123,000	143,000
Other	80,000	51,000
	<u>1,482,000</u>	<u>1,297,000</u>
Expense—		
Salaries and wages	1,047,000	911,000
Grants in lieu of taxes	150,000	151,000
Maintenance—buildings, plant and equipment	128,000	72,000
Power	112,000	96,000
Head office	80,000	71,000
Contributions to Public Service Superannuation Account ..	57,000	51,000
Accounting and cheque issue services	9,000	7,000
Employee surgical-medical insurance and compensation	7,000	7,000
Other	48,000	49,000
	<u>1,638,000</u>	<u>1,415,000</u>
Operating loss, without provision for depreciation	\$ 156,000	\$ 118,000
Operating loss provided for by—		
Department of Agriculture Vote 50	\$ 1,586,000	\$ 1,355,000
Government departments which provided major services without charge	73,000	65,000
	<u>1,659,000</u>	<u>1,420,000</u>
Less: Remittances of revenue to the Receiver General ..	1,503,000	1,302,000
	<u>\$ 156,000</u>	<u>\$ 118,000</u>

The general increase in revenue was mostly at the Prince Rupert Elevator where there was an increase of 48% in the volume of grain handled compared with an average increase of 7% at the other five elevators. The decline in revenue from storage was a result of a faster turnover of the grain for export. Wet weather in the fall of 1965 necessitated a greater use of the drying facilities at the elevators giving rise to increased revenue from this source, whereas the improved condition of the grain received reduced the cleaning required.

Salaries and wages increased by \$136,000 as a result of the larger volume of grain handled together with increments in the rates of pay. Repairs to the roof of the Saskatoon Elevator, damaged by a storm, mainly account for the increase of \$56,000 in maintenance expenses.

The loss of \$58,000 by the Lethbridge Elevator was its twenty-first consecutive annual loss—its accumulated deficit totals \$943,000.

During the year an amount of \$77,000 was paid to engineering consultants in respect of unused plans for a proposed extension to the Prince Rupert Elevator (see paragraph 53 of this Report).

222. National Film Board. This Board was established in 1939 by the National Film Act, R.S., c.185, for the purpose of initiating and promoting the production and distribution of films in the national interest. In accordance with section 18 of the Act, the National Film Board Operating Account in the Consolidated Revenue Fund has been credited with: amounts provided by annual parliamentary appropriations for "Administration, Production and Distribution of Films and Other Visual Materials" (National Film Board Vote 1); amounts transferred from appropriations of other government departments in respect of work undertaken for them; and receipts from other operations of the Board including the sale and rental of films and other visual materials. All expenditures by the Board have been charged to the Account with the exception of expenditures on capital equipment acquired for its own use which have been charged to National Film Board Vote 5. Included in the expenditures charged to the Account are the costs of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by National Film Board Vote L30, Appropriation Act No. 5, 1963, 1963, c.42.

The equity of the Crown in the Board at March 31, 1966 was \$2,785,000 compared with \$2,441,000 at the end of the previous year. This comprised \$1,418,000 in the National Film Board Operating Account, including \$139,000 for the Canadian Government Photo Centre equipment, and capital equipment \$1,367,000.

The following is a comparative summary of expense and income for the past two years:

	Year ended March 31	
	1966	1965
Expense—		
Production of films and other visual materials	\$ 3,866,000	\$ 3,480,000
Cost of production of films and other visual materials for government departments and others	3,769,000	2,744,000
Distribution of films	2,844,000	2,654,000
Estimated cost of major services provided without charge by government departments	1,166,000	1,091,000
Administration and general services	1,057,000	1,017,000
Depreciation on equipment	358,000	344,000
	<u>13,060,000</u>	<u>11,330,000</u>

	Year ended March 31	
	1966	1965
Income—		
Sales of films and other visual materials	\$ 4,205,000	\$ 3,120,000
Rentals and royalties	818,000	724,000
Miscellaneous	41,000	50,000
Canadian Government Photo Centre—net profit for the year	15,000	(12,000)
	<u>5,079,000</u>	<u>3,882,000</u>
Net expense	<u>\$ 7,981,000</u>	<u>\$ 7,448,000</u>
Net expense provided by—		
Parliamentary appropriations	\$ 6,457,000	\$ 6,013,000
Major services provided without charge by government departments	1,166,000	1,091,000
Depreciation	358,000	344,000
	<u>\$ 7,981,000</u>	<u>\$ 7,448,000</u>

The gross expense increased by \$1,730,000 or 15% over the total for the previous year. The greater part of this increase is represented by an overall increase of \$1,411,000 in the combined production costs of films and other visual materials, of which \$1,025,000 related to productions sponsored by government departments, agencies and others, and \$386,000 to the expansion of the regular production program.

The income increased by \$1,197,000, or 31% over that of the previous year. This was due largely to various special projects undertaken during the year for the Canadian Corporation for the 1967 World Exhibition, the Centennial Commission and certain government departments.

The estimated cost of accommodation, contributions to the Public Service Superannuation Account and other employee benefits, accounting, cheque issue and other services provided without charge by government departments is included in a single amount of \$1,166,000 in the Statement of Income and Expense. In last year's Report we recommended that the cost of these services be integrated as soon as practicable into the costing system to produce accurate costs as well as render possible a more realistic and complete presentation of the various costs of production and administration of the Board in its financial statements. We understand action along these lines is under study with officers of the Treasury Board.

The Canadian Government Photo Centre which was established in Ottawa for the purpose of co-ordinating the Government's still photographic activities, began operations on December 1, 1964. The operations of the Centre showed a net profit of \$15,000 for the year compared with a net loss of \$12,000 (after providing for preliminary expenses of \$17,000) in the first four months operations to March 31, 1965. The net profit was credited to income of the Board.

During the early part of 1965, an employee while on location in Edmonton, Alta., was robbed of \$2,970 of Board funds. He was reimbursed this amount in June 1965 on an ex gratia basis with the approval of the Governor in Council.

During the audit we brought to the attention of the Board several areas where the internal control was weak. While the Board had taken some action by the year-end, it was not sufficient to eliminate all the weaknesses noted. We have also suggested that, in view of the scope and nature of the Board's operations, a manual of accounting procedures should be prepared, the duties of the internal auditor should be defined in writing and a proper internal audit program should be developed.

223. Post Office. The Post Office Department operates under the authority of the Post Office Act, R.S., c. 212, which provides that the Postmaster General shall administer, superintend and manage the Canada Post Office.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1966	1965
Gross postal revenue	\$ 275,994,000	\$ 263,704,000
Expenses paid from revenue	38,512,000	33,268,000
Net postal revenue	237,482,000	230,436,000
Other revenue—		
Value of mail and other services provided free of charge to other government departments	4,793,000	4,342,000
Miscellaneous	56,000	53,000
	242,331,000 ✓	234,831,000 ✓
Expenditure from parliamentary appropriation—		
Operations	160,948,000	135,375,000
Transportation	72,575,000	69,056,000
Administration, financial services, etc.	6,683,000	6,028,000
	240,206,000	210,459,000
Estimated cost of major services provided without charge by other government departments—		
Accommodation	25,529,000	25,298,000
Contributions to Superannuation Account and employee group surgical-medical insurance	10,144,000	9,681,000
Accounting and cheque issue services	650,000	584,000
Employee compensation	270,000	262,000
	276,799,000 ✓	246,284,000 ✓
Net operating deficit	\$ 34,468,000	\$ 11,453,000

The \$12 million increase in gross revenue was due chiefly to an increase of \$7.5 million in the revenue from postage meters and an increase of \$2 million in revenue from the sale of postage stamps. The \$30 million increase in expenditure from the parliamentary appropriation was due mainly to increased salary costs of \$25 million.

224. Public Printing and Stationery activities. Under the Public Printing and Stationery Act, R.S., c. 226, the Department of Public Printing and Stationery is charged

exclusively with the following duties in relation to services required for the Senate and House of Commons and the several departments of the Government:

- (a) the execution and audit of all printing, stereotyping, electrotyping, lithography, binding work, or work of the like nature, and the procuring of the material therefor;
- (b) the purchase and distribution of all paper, books and other articles of stationery of whatsoever kind, except books that are required for the Library of Parliament, and printed books required for the use of the chaplains, libraries or schools in the penitentiaries which may be procured in the manner authorized by law;
- (c) the sale of all books or publications issued by order of either or both Houses of Parliament or by any department of the Government; and
- (d) the audit of all accounts for advertising. [This function was transferred to the Comptroller of the Treasury in 1954.]

With a view to implementing certain recommendations made by the Royal Commission on Government Organization, the Governor in Council in 1963-64 under the Public Service Rearrangement and Transfer of Duties Act, R.S., c. 227, transferred to the Department of Defence Production all functions of the Department of Public Printing and Stationery with the exception of the publication and distribution of books and publications. Accordingly the former main functions of the Department of Public Printing and Stationery are now carried out by two branches of the Department of Defence Production as follows: (a) the Canadian Government Supply Service which administers the Stores Branch, and (b) the Canadian Government Printing Bureau which operates the printing plant in Hull, Que., and the outside printing units.

In our 1965 Report (paragraph 219) we stated that the existing legislation governing printing and stationery has remained substantially unchanged since 1886 and many of the provisions of the Public Printing and Stationery Act have either become the responsibility of other departments or have proven impracticable.

For the purpose of carrying out the provisions of the Act, a working capital advance (the Queen's Printer's Advance) is authorized under section 37 of the Act to enable the Queen's Printer to purchase material for the execution of orders given or requisitions made under the provisions of the Act, and to pay the wages of workmen engaged in the execution of such orders or requisitions. This section further provides that "the amount of outstanding advances to the Queen's Printer, after deducting therefrom all amounts due to him by either House of Parliament or by the several departments shall at no time exceed the sum of four million dollars". The Advance has been shared equally by the Canadian Government Supply Service and the Canadian Government Printing Bureau.

The following summary shows the operating results of the Queen's Printer's Advance for the year ended March 31, 1966 together with comparable figures for the previous year:

	Year ended March 31	
	1966	1965
Sales	\$ 21,750,000	\$ 21,363,000
Cost of sales	21,437,000	20,698,000
Profit on sales	313,000	665,000
Discount earned	10,000	13,000
Profit	\$ 323,000	\$ 678,000

The profit of \$323,000 is after charging, for the first time, equipment purchases \$287,000, administrative expenses \$587,000 and major equipment repairs \$34,000. In previous years these costs had been charged to parliamentary appropriations. As in previous years, the value of services and facilities such as power, heat, amortization of buildings, etc., provided by other government departments has not been included in costs. In accordance with section 58 of the Financial Administration Act, the profit of \$323,000 was transferred to Revenue—"Return on investments".

The decrease of \$3,000 in discounts earned arose mainly during the last quarter of the year because of delays in processing suppliers' claims for payment while the Canadian Government Supply Service was introducing a new computer system.

During the year, the Canadian Government Printing Bureau entered into a contract for the exchange of approximately 500 tons of used type metal for 400 tons of new metal. As a result, the expense of restoring the metal is not included in the year's costs.

Printing Bureau employees worked 1.5 million man-hours and cost of sales includes overtime payments of \$691,000 or 14% of direct labour costs and \$103,000 for 42,064 hours of idle time.

Separate sets of records are maintained with respect to the Queen's Printer's Advance. Each set of records is closed at a different date as far as the recording of receipt of payments of accounts by departments is concerned. The total of accounts receivable shown by departmental records at March 31, 1966 is \$5,777,000 while the amount shown by Treasury records is \$639,000. However, neither of these amounts may be regarded as the correct amount outstanding at March 31 in relation to the accounts of Canada. The departmental accounts are closed off promptly at March 31 as far as collections are concerned and thus do not reflect the receipt of payments made by departments as charges to the old year in the month of April. On the other hand, the Treasury records were kept open into May for recording the receipt of payments made by departments and took into account payments from funds of the new year. Thus the figure for the accounts receivable of this Department in relation to the accounts of Canada at March 31, 1966 is not known.

We stated last year that an annual charge of 5% was insufficient to recover the original cost of 247 typewriters purchased through the Advance at a cost of \$53,000 and supplied to the House of Commons in 1961-62. Rentals received were applied towards the cost of the typewriters and, during the year, the remaining balance of \$41,348 was written down to an appraised value of \$24,700. In our opinion, this adjustment of \$16,648 should have been charged to a House of Commons appropriation provided for the purpose rather than as a cost of sales of the Canadian Government Supply Service.

225. Queen's Printer—publishing activities. According to the provisions of the Public Printing and Stationery Act, R.S., c. 226, and Orders issued by the Governor in Council under the Public Service Rearrangement and Transfer of Duties Act, R.S., c. 227, the Department of Public Printing and Stationery is charged solely with the function of procurement of print for books and publications and with the distribution of parliamen-

tary and departmental publications. These operations include the printing of the Canada Gazette, the Statutes of Canada and other Government publications.

The Department operates with funds provided by parliamentary appropriations. Major services, such as carrying franked mail, accommodation, etc., are supplied free of charge by other departments.

A summary of expenditure and revenue for the year, together with comparable figures for the preceding year, follows:

	Year ended March 31	
	1966	1965
Expenditure—		
Printing and binding official documents	\$ 1,547,000	\$ 1,349,000
Distribution of official documents	1,072,000	1,041,000
Administration	204,000	177,000
Printing of Canada Gazette	182,000	152,000
Printing and binding the Statutes of Canada	49,000	14,000
	<u>3,054,000</u>	<u>2,733,000</u>
Estimated cost of major services provided without charge by other government departments:		
Carrying of franked mail	830,000	554,000
Accommodation	285,000	260,000
Contributions to Public Service Superannuation Account	53,000	61,000
Accounting and cheque issue	35,000	32,000
Employee surgical-medical insurance premiums	5,000	6,000
Employee compensation payments	1,000	1,000
	<u>1,209,000</u>	<u>914,000</u>
	<u>4,263,000</u>	<u>3,647,000</u>
Revenue—		
Proceeds from sales	1,626,000	1,623,000
Canada Gazette	200,000	230,000
Commissions on sale of publications issued by international organizations of which Canada is a member nation	49,000	19,000
Royalties from copyrights on government publications	27,000	77,000
Service fees for art work performed for other government departments	18,000	12,000
	<u>1,920,000</u>	<u>1,961,000</u>
Excess of expenditure over revenue	<u>\$ 2,343,000</u>	<u>\$ 1,686,000</u>

Parliamentary appropriations were charged with \$3,054,000 during the year, an increase of \$321,000 or 12% over the preceding year, due mainly to an increase in publishing activities. Included in the costs of printing and binding official documents are expenditures of \$68,000 to cover the cost of documents distributed free to Members of Parliament and to organizations approved by the Governor in Council. The gross revenue of \$1,920,000 reflects a decrease of \$41,000 from the previous year due principally to fewer royalties collected on the RCAF physical fitness publications sold by other publishers and to a reduction in advertising linage in the Canada Gazette.

The sales operation of the Department is handled by a mail order office located in Hull, Que., and by five government bookstores in various cities in Canada. In addition, sales counters are located in the National Gallery of Canada and in the Parliament Buildings in Ottawa.

The retail value of inventories of publications held at the bookstores and sales counters at March 31, 1966 was estimated at \$349,000 compared with \$264,000 at March 31, 1965. The value of inventories in the mail order office and on consignment at various agencies is not known.

The Department continues to experience difficulty in its attempts to reconcile the value of publications at each store with the memorandum control account maintained at headquarters. Although efforts are being made to improve administrative control over the stocks, no dollar value inventory control of publications at the bookstores and sales counters has yet been established to fix specific responsibility for stock discrepancies. We have advised the Department that prompt and effective remedial action is required in this area.

Shipments to bookstores originate in the bulk store located in the Printing Bureau in Hull. The warehousing function of the bulk store has been under the administration of the Canadian Government Supply Service since the early part of 1965. During the latter months of that year a quantity control system over publications was established, but a value control is still lacking. A recent review indicates that certain phases of the bulk store operation are unsatisfactory. For example, because of the posting delays, errors in coding, shipping errors, etc., the computerized stock ledger records do not always show the correct quantities of stock on hand. In addition, the present arrangement of stores does not provide adequate security as some of the stockrooms have no permanent attendant and are accessible to unauthorized persons.

In addition to government-owned stock, the bulk store and the bookstores hold on a consignment basis quantities of publications of other countries and international organizations of which Canada is a member. In our 1965 Report we stated that no inventory control records had been established for these publications and as a result the current value of stock was not known. This situation remains unchanged.

Bookshop sales for other countries and for international organizations are recorded in total only and generally the inventories held by the Department have not been reconciled with the inventory balances reported by the consignors. This is a serious situation and a number of countries and organizations are concerned that inventory statements have not been provided as required by their contracts.

We were informed by the Department that one of the main problems in connection with controls over international publications is the development and implementation of a system to control the sales and inventories of these organizations while another one is to obtain the necessary staff to carry out the duties involved.

The Department handles the distribution of publications for several government departments and agencies and does not recover distribution costs from the departments

concerned. It has been estimated that the Department's cost for this service is \$150,000 per annum. On the other hand, the Department has not been charged, by the Canadian Government Supply Service, for shipping and receiving services estimated at \$21,000 per annum or for the substantial cost of operating the bulk publication store.

The Queen's Printer has been provided with a revolving fund to facilitate the printing of publications by commercial printers. This fund, which is not to exceed \$250,000 at any time, is reimbursed by departments for which the printing is provided. Transactions during the year involved payments of \$2,859,000, receipts of \$2,906,000, and accounts receivable at the year-end amounting to \$149,000 compared with \$196,000 at the end of the previous year.

226. Royal Canadian Mint. The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Transactions in gold, silver and other metals acquired by the Mint for its operations are recorded in revolving fund accounts. The following is a summary of these accounts for the year with comparable amounts for the preceding year:

	Year ended March 31	
	1966	1965
Inventories at beginning of year	\$ 18,704,000	\$ 29,401,000
Purchases—		
Gold	94,658,000	102,005,000
Silver	26,443,000	12,777,000
Other metals	3,252,000	3,487,000
	<i>124,353,000</i>	<i>118,269,000</i>
	<u>143,057,000</u>	<u>147,670,000</u>
Sales—		
Gold	98,256,000	104,825,000
Silver coin at face value	34,818,000	27,369,000
Other coin at face value	5,998,000	8,629,000
Silver bullion	56,000	57,000
	<i>139,128,000</i>	<i>140,880,000</i>
Gold revaluation	19,000	11,000
	<u>139,147,000</u>	<u>140,891,000</u>
	<u>3,910,000</u>	<u>6,779,000</u>
Transfers to revenue—		
Gain on coinage operations	10,861,000	11,909,000
Gold refining gain	23,000	16,000
	<i>10,884,000</i>	<i>11,925,000</i>
Inventories at end of year	\$ 14,794,000	\$ 18,704,000

The Public Accounts record as revenue of the Department of Finance the transfer of \$10,884,000 from the revolving fund accounts and other Mint revenue of \$5,788,000, a total of \$16,672,000 for the year ended March 31, 1966 compared with \$15,032,000 for

1964-65. There was a decrease of \$1,041,000 in transfers from the revolving fund accounts due to a net decrease in the number of coins issued from 652,966,195 pieces last year to 444,335,538 pieces for the year ended March 31, 1966 and an increase of \$2,681,000 in other Mint revenue due to an increase in the sales of uncirculated coin sets.

Administration, operation and maintenance expenditures of the Mint, charged to Department of Finance appropriations, totalled \$2,786,000 (\$2,572,000 in 1964-65) and construction or acquisition of equipment expenditure was \$408,000 (\$90,000 in 1964-65).

The net result is an excess of revenue over expenditure of \$13,478,000 for the year ended March 31, 1966 compared with \$12,370,000 for the previous year, an increase of \$1,108,000. These recorded results do not, however, take into consideration such expenses as interest on funds employed or services provided without charge by other departments such as accommodation, security, contributions to the Public Service Superannuation Account, employee surgical-medical insurance premiums, accounting and cheque issue services and employee compensation payments.

Special Audits and Examinations

227. In addition to the examinations of the accounts of departments and Crown corporations referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes: The Army Benevolent Fund Board, Atlantic Development Board, The Canada Council, Canada Pension Plan Account, the Custodian, Economic Council of Canada, Exchange Fund Account, Municipal Development and Loan Board, National Gallery of Canada, Public Printing and Stationery stores, The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children, Roosevelt Campobello International Park Commission, Royal Canadian Mint stocks, Unemployment Insurance Fund and Yukon Territorial Government.

228. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, R.S., c. 10, and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid

to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

- (a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];
- (b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;
- (c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing; and
- (d) amounts paid out of the Fund are not recoverable, unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1966 pursuant to section 11 of the Act and our report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to \$248,000 of which \$236,000 was derived from interest on deposits with the Receiver General and \$12,000 from interest on Government of Canada bonds. Disbursements totalled \$427,000 consisting of \$324,000 in grants to or on behalf of World War II veterans and \$103,000 for administrative and casework expense. The latter was a net amount after deducting a fee of \$36,000 for management of the financial program of the Canadian Army Welfare Fund and a grant of \$18,000 from the Department of Veterans Affairs to assist in defraying administrative expenses.

After absorbing the excess of disbursements over receipts amounting to \$179,000, the balance of the Fund was \$5,372,000 at March 31, 1966 of which \$5,111,000 was on deposit with the Receiver General, \$256,000 was invested in Government of Canada bonds and \$5,000 was represented by accountable advances and prepaid expenses.

229. Atlantic Development Board. This Board was established by the Atlantic Development Board Act, 1962-63, c. 10. The objects of the Board are to inquire into, and report to the responsible Minister upon, programs and projects for fostering the economic growth and development of the Atlantic region of Canada, to consider, report and make recommendations to the Minister concerning programs and projects and, with the approval of the Governor in Council, to enter into agreements respecting the use of the Atlantic Development Fund in financing or assisting in financing to a maximum of \$100 million (subsequently increased to \$150 million, 1966-67, c. 31) projects that will contribute to the growth and development of the economy of the Atlantic region and for which satisfactory financing arrangements are not otherwise available. The Atlantic Development Fund, established by section 16 of the Act, is a special account in the Consolidated Revenue Fund to which are credited such amounts as are from time to time required by the Board for the carrying out of its programs and projects and to which are charged the payments made in respect of them.

Pursuant to section 18 of the Act, we have audited the accounts and financial transactions of the Board and have reported thereon to the Board and to the Minister of Transport.

The following is a summary of the transactions in the Fund since its inception showing the projects approved and funds disbursed to March 31, 1966:

Type of project	Approved by the Governor in Council	Funds disbursed	Outstanding commitments
Power	\$ 48,413,000	\$ 17,446,000	\$ 30,967,000
Trunk highway systems	10,675,000	5,657,000	5,018,000
Basic industrial services	14,613,000	1,262,000	13,351,000
Research facilities	3,000,000	133,000	2,867,000
Miscellaneous	5,000	4,000	1,000
	<u>\$ 76,706,000</u>	<u>\$ 24,502,000</u>	<u>\$ 52,204,000</u>

Funds disbursed amounted to \$20,860,000 in 1965-66 and to \$3,642,000 in 1964-65.

During the year a second trunk highway program was entered into to be financed in 1965-66 and subsequent years by Department of Transport Vote 112. The transactions under this program were as follows:

Province	Approved by the Governor in Council	Funds disbursed	Outstanding commitments
New Brunswick	\$ 9,000,000	\$ 889,000	\$ 8,111,000
Newfoundland	9,000,000	603,000	8,397,000
Nova Scotia	9,000,000	603,000	8,397,000
Prince Edward Island	3,000,000		3,000,000
	<u>\$ 30,000,000</u>	<u>\$ 2,095,000</u>	<u>\$ 27,905,000</u>

The following is a comparative summary of the Board's administrative expenses and expenditures on technical and economic surveys and studies for the past two years:

	Year ended March 31	
	1966	1965
Administrative expenses—		
Salaries	\$ 253,000	\$ 100,000
Employee benefits	13,000	6,000
Travel and removal	39,000	17,000
Accommodation	13,000	15,000
Accounting services	4,000	8,000
Office equipment and supplies	22,000	4,000
Other	17,000	6,000
	<hr/>	<hr/>
Technical and economic surveys and studies	361,000	156,000
	<hr/>	<hr/>
Total expenditure	\$ 817,000	\$ 675,000
	<hr/>	<hr/>

These expenditures were met to the extent of \$800,000 by funds provided by Department of Transport Vote 110 and to the extent of \$17,000 by government departments which provided accommodation and accounting services without charge.

230. *The Canada Council.* The Council was established by the Canada Council Act, 1957, c. 3, to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

A report on the audit of the Council's accounts for the year ended March 31, 1966 was made to the Council and to the Secretary of State, as required by the Act.

An Endowment Fund of \$50 million was established under the Act. The return on the investments of the Fund is used to meet administrative expenses and other expenditure for purposes of the Act (except for capital assistance grants to universities which are made from the University Capital Grants Fund). Permissible expenditures relate to the following in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

In our 1965 Report (paragraph 225) reference was made to a \$10 million unconditional grant from the Government of Canada which was received by the Council in April 1965 to be used for the general purposes set out in section 8 of the Canada Council Act. Moneys received from this grant were invested separately from the Endowment Fund and during the year a total of \$3,476,000 was applied to grants and awards paid through the Endowment Fund. At the year-end an amount of \$6,945,000 remained to be expended and is accounted for on the balance sheet for the Special Funds referred to later in this paragraph.

The following is a summary of the Endowment Fund operations for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1966	1965
Surplus at April 1	\$ 50,000	\$ 82,000
Income—		
Interest and dividends	3,306,000	3,154,000
Portion of unconditional grant from the Government of Canada applied to grants and awards	3,476,000	—
	<u>6,832,000</u>	<u>3,236,000</u>
Expenditure—		
Grants	6,157,000	2,661,000
Canadian National Commission for UNESCO	135,000	88,000
Administrative and other expenses, less expenses recovered	540,000	437,000
	<u>6,832,000</u>	<u>3,186,000</u>
Surplus at March 31	<u>\$ —</u>	<u>\$ 50,000</u>

A University Capital Grants Fund of \$50 million was established by the Act in order that grants could be made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants are paid out of the principal and accumulated income of the Fund.

The following is a summary of the University Capital Grants Fund transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1966	1965
Balance at April 1	\$ 10,299,000	\$ 11,499,000
Add:		
Interest earned on investments	581,000	790,000
Net profit on disposal of securities	15,000	95,000
	<u>10,895,000</u>	<u>12,384,000</u>
Deduct:		
Authorized grants	1,547,000	2,085,000
Balance at March 31	<u>\$ 9,348,000</u>	<u>\$ 10,299,000</u>

During the year the Council allocated to qualifying institutions the amount of \$1,879,000 which represented the accumulated interest and profits earned by the University Capital Grants Fund from October 1, 1963 to December 31, 1965. A prior allocation of \$15,130,000, was made during the year ended March 31, 1964, representing the accumulated interest and profits earned by the Fund from its inception to September 30, 1963. Grants authorized by the Council from these allocations amounted to \$9,147,000 by

March 31, 1965 and payments thereon during the same period amounted to \$5,552,000. Further grants of \$709,000 were authorized during the year from interest and profits and grants paid amounted to \$2,624,000.

In our 1965 Report (paragraph 225) reference was again made to the method employed in the allocation of the interest and profits, to the qualification of our reports to the Council and to the Secretary of State, and to the Sixth Report 1964 of the Public Accounts Committee wherein it was recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund. As no action had been taken, the Public Accounts Committee in its Third Report 1966 reiterated its previous recommendation and requested the Council to formally ask the Government to give consideration to the required amending legislation with the objective of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund (see Appendix 1, item 22). Our report to the Council and to the Secretary of State was again qualified with respect to this matter.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. Moneys or property received by the Council pursuant to this section are presented in a separate balance sheet designated "Special Funds". This balance sheet has two parts, the first of which relates to the comparatively small gifts which are accounted for within the Endowment Fund and the unconditional grant from the Government of Canada referred to above, while the second part relates to the following funds from which only the income may be disbursed for the purposes designated:

1. The amount of \$1,079,000 received in 1963 in connection with an anonymous gift of \$4,250,000 to be paid to the Council over a period of several years was augmented by an additional \$131,000 in 1964 and by a further \$125,000 in 1965. The income from the amounts received is to provide fellowship and scholarship grants to Canadians for advanced study or research in the fields of medicine, science and engineering at universities, hospitals, research or scientific institutions or other equivalent or similar institutions in Canada.
2. A gift of \$600,000 received from the Molson Foundation in 1963 to establish a capital fund referred to as the Molson Prize Fund, the income from which is to be used for making cash awards of \$15,000, normally two in each year, to authors or creators of works or to persons who have rendered service to Canada in the fields of the arts, humanities and social sciences which will enrich the cultural or intellectual heritage of the nation, or make a noteworthy contribution to understanding and unity among Canadians of French and English descent.

For investment purposes these two funds have been combined and are represented by one portfolio. The income of \$115,000 produced by the investments was apportioned between the two funds on a quarterly basis according to the ratio of the principal and

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surplus of each fund at the beginning of the quarter to the total principal and surplus of the funds. A summary for the year follows:

	Special Scholarship Fund	Molson Prize Fund	Total
Surplus at April 1, 1965	\$ 6,000	\$ 19,000	\$ 25,000
Income—interest and dividends	78,000	37,000	115,000
	<u>84,000</u>	<u>56,000</u>	<u>140,000</u>
Expenditure—			
Grants and awards	36,000	30,000	66,000
Administration charge	2,000	2,000	4,000
	<u>38,000</u>	<u>32,000</u>	<u>70,000</u>
Surplus at March 31, 1966	<u>\$ 46,000</u>	<u>\$ 24,000</u>	<u>\$ 70,000</u>

The Council approved the assessing of an administration fee of \$2,000 for the year ended March 31, 1966 against the income of each of the Special Funds.

231. Canada Pension Plan Account. The Canada Pension Plan, 1964-65, c.51, provides for a comprehensive program of contributory old age pensions and supplementary benefits for most persons in the work force in Canada, whether employees or self-employed, with the exception of those in the Province of Quebec who are covered by a parallel provincial plan.

Section 110 of the Act established the Canada Pension Plan Account within the accounts of Canada to which all contributions, interest and other amounts received under the Plan are credited and to which benefits and other payments under the Plan, including administration costs, are charged. Section 111 established within the accounts of Canada the Canada Pension Plan Investment Fund in which investments in provincial and federal securities are recorded.

The Act requires the Minister of National Health and Welfare to make an annual report to Parliament on the administration of the Act, including a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund during the year. There is no provision in the Act for certification of this statement by the Auditor General, although such a provision would appear desirable.

Contributions to the Canada Pension Plan commenced January 1, 1966. Retirement benefits will become payable in January 1967. The following is a summary of transactions in the Canada Pension Plan Account to March 31, 1966:

Receipts—	
Contributions from employers and employees	\$ 94,880,000
Interest	37,000
	<u>94,917,000</u>
Disbursements—Administration expenses	5,511,000
Balance at March 31, 1966	<u>\$ 89,406,000</u>

This balance comprised:

Operating balance	\$ 54,553,000
Investment Fund	34,853,000
	<u>\$ 89,406,000</u>

The \$94,880,000 shown for contributions from employers and employees represents actual receipts to March 31, 1966. No amount has been accrued for contributions relating to periods prior to March 31, 1966 but received after the year-end or for accrued interest of \$142,000 on provincial and federal securities and \$100,000 on the operating balance for the month of March 1966.

The following schedule shows the administration expenses charged to the Account during the year with respect to services provided to the Plan by various government agencies:

	Department of National Health and Welfare	Comptroller of the Treasury	Department of National Revenue (Taxation)	Unemployment Insurance Commission	Total
Direct costs—					
Salaries	\$ 23,000	\$ 117,000	\$	\$	\$ 140,000
Advertising	1,637,000				1,637,000
Other	10,000	13,000			23,000
	<u>1,670,000</u>	<u>130,000</u>			<u>1,800,000</u>
Indirect costs—					
Administration	184,000	6,000	1,836,000	1,286,000	3,312,000
Accommodation	13,000	24,000	163,000	21,000	221,000
Other	5,000	16,000	83,000	74,000	178,000
	<u>202,000</u>	<u>46,000</u>	<u>2,082,000</u>	<u>1,381,000</u>	<u>3,711,000</u>
Total	<u>\$ 1,872,000</u>	<u>\$ 176,000</u>	<u>\$ 2,082,000</u>	<u>\$ 1,381,000</u>	<u>\$ 5,511,000</u>

The Treasury Board has given to the Department of National Health and Welfare, as the administering department for the Plan, the right to review charges to the Canada Pension Plan Account by other departments. This review, which has not yet been made, may result in adjustment of some of the above charges.

No amounts have been charged to the Canada Pension Plan Account with respect to costs of various government control agencies such as the Civil Service Commission, the Treasury Board, etc. The Treasury Board has decided that the Plan will not be called upon to bear costs, estimated at \$1,600,000, incurred prior to enactment of the Canada Pension Plan, in preparing the legislation and establishing preliminary administrative machinery.

The Act restricts the investments of the Plan to securities of Canada or the provinces, or securities fully guaranteed by the provinces, payable to the Canada Pension Plan In-

vestment Fund, which are not negotiable and not transferable or assignable. The amount available for investment in provincial and federal securities at each month-end is determined by deducting from the uninvested balance in the Account the estimated amount required to meet all payments during the following three months. This amount is allocated to the various provinces in the ratio that the contributions from each province bear to the total of all contributions. Any balance not required for the purchase of securities offered by a province is to be invested in securities of Canada. The rate of interest on securities purchased for the Investment Fund is determined generally by the average rate of interest on outstanding obligations of the Government of Canada at the time of purchase.

At March 31, 1966, securities of Canada and the provinces bearing interest at 5.29% were held as follows:

Ontario	\$ 20,110,000
British Columbia	5,085,000
Alberta	3,064,000
Manitoba	2,077,000
Saskatchewan	1,432,000
Nova Scotia	1,248,000
New Brunswick	972,000
Newfoundland	655,000
Prince Edward Island	108,000
Canada	102,000
	<hr/>
	\$ 34,853,000
	<hr/>

232. The Custodian. In accordance with Regulation 6 of the Revised Regulations Respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Since May 15, 1964, the Deputy Registrar General of Canada has acted as the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1965 was made to the Secretary of State.

The assets under the administrative control of the Custodian, which were valued in accordance with bases explained in an addendum to his statement of assets and liabilities (Public Accounts, Volume II, page 40.10), decreased by \$281,000 to \$2,799,000 at December 31, 1965. A transfer of \$350,000 to the Minister of Finance for the War Claims Fund, and releases of assets valued at \$1,141,000 to former owners or their beneficiaries or other rightful claimants, offset in part by an appreciation of \$1,280,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations referred to above, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property

vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

All fees and any income received from vested assets which consist of, or are converted into, cash or Government of Canada bonds are credited to the Custodian's Office Administration Account, from which expenses of the Office are paid. We have drawn attention to this procedure in past years because it is one which is inconsistent with the treatment of income arising from other assets vested in the Custodian. The matter is currently under study by the Deputy Custodian.

From September 2, 1939 to December 31, 1965 the Custodian has accumulated a surplus of \$4,837,000—largely invested in Government of Canada bonds—in his Office Administration Account. We have suggested to the Deputy Minister of Finance that consideration be given to transferring the surplus cash resources to the Consolidated Revenue Fund, with the Custodian's administrative expenses being provided for in future by parliamentary appropriations. The Deputy Minister has informed us that he agrees with the suggestion and that, as an interim measure, parliamentary authority will be sought for the transfer of a substantial portion of the surplus.

Consideration was also invited to whether the other cash resources might be managed more effectively if they were held in an open account in the Consolidated Revenue Fund. In this regard we were informed that the suggestion touched on policy in which the Custodian is governed by the advice of the **Treasury Board** following consultation with the Department of Finance.

The following is a summary of the income and expense of the Custodian for the year together with comparable figures for the preceding year:

	Year ended December 31	
	1965	1964
Income—		
Fees on assets released from administration	\$ 9,000	\$ 10,000
Interest on investments	195,000	206,000
Interest on bank deposits	7,000	9,000
	<hr/> 211,000	<hr/> 225,000
Expense—		
Salaries	60,000	81,000
Ex gratia payment	—	5,000
Other	14,000	12,000
	<hr/> 74,000	<hr/> 98,000
Surplus	<hr/> \$ 137,000	<hr/> \$ 127,000

The income from fees on assets released from administration did not increase proportionately with the value of assets released during the year, due to a comparatively large settlement having been made without fee. Although a fee was not charged, under the settlement agreement with two claimants the Custodian retained a substantial portion of the liquidation proceeds which provided the major portion of the transfer mentioned

above for the War Claims Fund. The reduction in interest on bank deposits and investments resulted mainly from the outflow of cash and Government of Canada bonds from among the vested assets as releases of assets from administration were effected. The decrease in salary costs resulted mainly from staff reductions and a revision in the salary paid to the Assistant Deputy Custodian who, with effect from February 12, 1965, also holds the position of Registrar of Trade Marks.

233. *Economic Council of Canada.* The Council, established by the Economic Council of Canada Act, 1963, c.11, to advise how Canada can achieve the highest possible levels of employment and efficient production, comprises a chairman, two directors and twenty-five other members broadly representative of different sectors and groups in the Canadian economy.

Pursuant to section 20 of the Act, we have examined the accounts and financial transactions of the Council and have reported thereon, under date of June 24, 1966, to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the year ended March 31, 1966, together with comparable figures for the previous year:

	Year ended March 31	
	1966	1965
Salaries	\$ 863,000	\$ 643,000
Professional and special services	109,000	68,000
Rent	73,000	63,000
Travel	62,000	66,000
Contributions to Public Service Superannuation Account and employee benefits	51,000	41,000
Stationery, supplies, telephone	53,000	36,000
Other	43,000	30,000
	<u>\$ 1,254,000</u>	<u>\$ 947,000</u>

The expense for 1966 includes \$85,000 for a special study on the relationship of prices, costs and incomes to sustained economic growth.

The expense was met to the extent of \$1,116,000 by Secretary of State Vote 40 and major services were provided without charge by government departments at an estimated cost of \$138,000.

234. *Exchange Fund Account.* This Account, which was originally established by the Exchange Fund Act, 1935, c.60, "to aid in the control and protection of the external value of the Canadian monetary unit", and continued by the Foreign Exchange Control Act, 1946, c.53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c.315. Funds to operate the Exchange Fund Account are obtained, interest free, from the Consolidated Revenue Fund under such terms and conditions as the Governor in Council may prescribe.

Pursuant to section 27 of the Currency, Mint and Exchange Fund Act we have audited the Exchange Fund Account and the transactions in connection therewith for the

year ended December 31, 1965, and have addressed a report thereon to the Minister of Finance. This section also requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and the records of the Account show truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the past two years:

	Year ended December 31	
	1965	1964
Balance at January 1	\$ 2,800,552,000	\$ 2,751,594,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of previous year's earnings	63,552,000	62,594,000
	<hr/> 2,737,000,000	<hr/> 2,689,000,000
Add:		
Advances (net)	81,000,000	48,000,000
Earnings on investments (to be paid into the Consolidated Revenue Fund)	62,833,000	63,552,000
	<hr/> 2,880,833,000	<hr/> 2,800,552,000
Balance at December 31	\$ 2,880,833,000	\$ 2,800,552,000
Represented by—		
Canadian dollars	\$ 852,000	\$ 1,241,000
United States dollars and securities	1,614,799,000	1,705,869,000
International Monetary Fund note	54,188,000	16,236,000
Gold	1,244,157,000	1,108,876,000
Suspense account	(25,000)	62,000
	<hr/> 2,913,971,000	<hr/> 2,832,284,000
Surplus	33,138,000	31,732,000
	<hr/> \$ 2,880,833,000	<hr/> \$ 2,800,552,000

The United States dollar holdings were valued at \$1.08108 (par) at December 31, 1965 and as a result the surplus was \$16,384,000 greater than if the closing market rate of \$1.075 had been used.

In our 1964 and earlier Reports we recommended that provision be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and revaluations of holdings of gold and foreign currencies. The Public Accounts Committee made the following recommendation in its Sixth Report 1964:

The Committee is glad to note that in future, commencing with this year (i.e. 1964-65) or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases and sales during the year, is to be transferred to the Consolidated Revenue Fund.

The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

Parliamentary authority to transfer to the Consolidated Revenue Fund the net profit arising from trading operations and investment, as described in the Committee's Sixth Report 1964 referred to above, was not obtained during the year and accordingly the net profit on these transactions in 1965 is reflected in the surplus of the Account, which increased by \$1,406,000 from \$31,732,000 to \$33,138,000 at December 31, 1965.

Authority for the transfer to the Consolidated Revenue Fund of profit from trading operations in foreign exchange, gold and securities, and from the net valuation adjustments on unmatched purchases or sales has now been provided (retroactively for the years 1964 and 1965) by Appropriation Act No. 9, 1966, 1966-67, c.55, assented to on November 30, 1966, which includes:

Vote 23a—To authorize, notwithstanding the Currency, Mint and Exchange Fund Act, the transfer from the Exchange Fund Account to the Consolidated Revenue Fund of the profit for the calendar year 1964 and each subsequent calendar year from trading operations in foreign exchange, gold and securities, and from the net valuation adjustments on unmatched purchases or sales during each such year—\$1.

235. *Municipal Development and Loan Board.* This Board was established by the Municipal Development and Loan Act, 1963, c.13. The purpose of the Act was to promote increased employment in Canada through financial assistance by way of loans to an aggregate of \$400 million to municipalities to augment or accelerate municipal capital works programs. At March 31, 1966, which was the termination date for applications for loans, a total of \$399,251,000 had been approved with respect to 2,469 loans. This left a net amount of \$749,000 to cover increases in existing loans required to meet final costs on specific projects.

Pursuant to section 19 of the Act, we have audited the accounts of the Board and have reported thereon to the Board and to the Minister of Finance.

The Act required the Board to forgive payment of 25% of the principal amount of the loan where the municipal project was completed to the satisfaction of the Board on or before March 31, 1966, and 25% of the portion of the loan advanced at that date if the project was not completed. Department of Finance Vote 50b, Appropriation Act No. 2, 1966, 1966-67, c.3, and Department of Finance Vote 50e, Appropriation Act No. 4, 1966, 1966-67, c. 6, extended the period of forgiveness by authorizing the Board, in the current

and subsequent fiscal years, (1) to forgive payment of 25% of the principal amount of the loan where the municipal project is completed to the satisfaction of the Board prior to September 30, 1966; and (2) where the municipal project is not completed on or before September 30, 1966, to forgive payment of 25% of that portion of the principal amount of the loan that is made with respect to the cost, as determined by the Board, incurred on the project prior to September 30, 1966.

Loan applications by municipalities required provincial approval. Four provinces, Quebec, Ontario, Manitoba and Saskatchewan, entered into agreements with the Board as provided in the Act, for provincial administration of programs. In these cases loans were made by the Board to the provinces to enable them to make loans to municipalities in respect of municipal projects under the same terms and conditions as applied in the case of loans made by the Board directly to municipalities.

Expenses for the year amounted to \$162,000, provided for by Department of Finance Vote 45, compared with \$145,000 for the previous year.

Of the loans approved by the Board as at March 31, 1966, \$145,583,000 had been disbursed, of which \$29,763,000, being 25% of the loans against 718 completed projects, had been forgiven pursuant to section 11 of the Act. Outstanding loan commitments at March 31, 1966 amounted to \$253,668,000.

Section 12 of the Municipal Development and Loan Act provided that the Governor in Council, on the recommendation of the Minister of Finance, could from time to time prescribe the rate of interest to apply in respect of loans under the Act. Such interest is payable directly to the Department of Finance. Section 9(2) stipulated that it should be a condition of any loan to a municipality in respect of a municipal project that the debentures to be issued to the Board by the municipality in respect of the municipal project would bear interest at the rate applying pursuant to section 12 on the date the loan was approved by the Board.

Although an interest rate of $5\frac{3}{8}\%$ was prescribed by Order in Council P.C. 1965-1157 dated June 23, 1965 for the period July 1 to September 30, 1965, 40 loans totalling \$3,501,000 were approved during July, 1965 with an interest rate of $5\frac{1}{4}\%$ (the rate in effect prior to July 1). This was in accordance with a decision of the Board on December 18, 1963 in respect of loans in process when the interest rate changed. With reference to the four provinces with agreements for provincial administration, it was decided that the Board would accept loan applications up to several days after the interest rate changed, provided the province's commitment to the municipality had been made in the previous quarter. With reference to loan applications from the six provinces without agreements, it was decided that the interest rate would be the rate in effect at the time an acceptable application was received by the Board.

236. *National Gallery of Canada.* The Gallery was incorporated under the National Gallery Act, R.S., c.186. Its objects and powers comprise the development, maintenance, care and management of the National Gallery, the acquisition of works of art and generally the promotion of the public interest in art in Canada.

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Pursuant to section 9 of the National Gallery Act, the accounts for the year were examined and a report was addressed to the Secretary of State.

The following is a comparative summary of expenditure for the past two years:

	Year ended March 31	
	1966	1965
Administrative and general services	\$ 584,000	\$ 598,000
Development and care of collections	240,000	202,000
Exhibition and extension services	586,000	625,000
Research laboratory	88,000	62,000
Grants	8,000	11,000
	<hr/>	<hr/>
	1,506,000	1,498,000
Works of art	832,000	192,000
Equipment	83,000	38,000
	<hr/>	<hr/>
	\$ 2,421,000	\$ 1,728,000
	<hr/>	<hr/>

The operating expenses of the National Gallery are met largely from parliamentary appropriations, with the remainder paid from a special operating account. Funds for the acquisition of works of art are provided through the National Gallery Purchase Account to which are credited moneys appropriated by Parliament for that purpose. Funds from the National Gallery Special Operating Account are also used to acquire works of art and \$93,000 was expended from it for this purpose in 1965-66.

As stated in our Reports for the past four years, parliamentary control may be weakened by the supplementing of specific appropriations by expenditures from the National Gallery Special Operating Account, and by crediting to the Special Operating Account fees from exhibitions and lectures, proceeds from the sale of slides and photographs, and service charges when the costs of producing this revenue are mainly met from the parliamentary appropriation for operating expenses.

In this connection it was noted that the Treasury Board had directed in the case of one exhibition financed with funds appropriated by Parliament, that fees received from other galleries were to be credited to revenue instead of to the Special Operating Account as is required by section 8 of the Act. The fees so diverted have amounted to \$25,000.

The Board's decision to so divert these fees was to obviate any question of directly supplementing the Special Operating Account with revenues earned as a result of expenditures from appropriations. While the Board's decision in this case was in accordance with the view expressed in our Reports, it must be recorded that in the absence of a suitable amendment to the Act the action was contrary to the requirements of that Act.

237. Public Printing and Stationery stores. Subsection (2) of section 34 of the Public Printing and Stationery Act, R.S., c. 226, provides that:

The Auditor General shall, annually or more frequently at his discretion, cause the stock of stationery, printing materials and supplies in store, to be checked with the quantities purchased and supplied.

During the year, as in prior years, such tests were made as we considered necessary to satisfy ourselves that the inventory was properly taken. In addition, we participated in the inventory checks made by departmental personnel. A report on the examinations was made to the Minister of Industry.

At March 31, 1966 the inventories of stationery, printing materials and supplies had a cost value of \$3,165,000. A comparison with those at the end of the preceding year is as follows:

	March 31	
	1966	1965
Printing materials and supplies—		
Paper	\$ 607,000	\$ 491,000
Printing supplies	315,000	277,000
Maintenance stores	164,000	158,000
Printing sub-stores—Main Plant	90,000	124,000
Miscellaneous	—	42,000
	1,176,000	1,092,000
Work in process	1,112,000	858,000
Stationery, office equipment and parts—		
Stationery stores	751,000	804,000
Typewriters and office machine parts	126,000	146,000
	877,000	950,000
	<u>\$ 3,165,000</u>	<u>\$ 2,900,000</u>

238. *The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, 1959, c.33, established this Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. A Board of Trustees consisting of a chairman and six members is responsible for the management and administration of the Fund. As required by the Act, the National Research Council provides, without charge, such secretarial and other administrative and technical services and facilities as may be required by the Board, whose headquarters are in Ottawa. A report on the audit of the Fund's accounts for the year ended March 31, 1966 was made to the Board and to the Prime Minister as required by the Act.

The Act provided \$1 million for the Fund and also permits the Board to accept gifts for its purposes. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1966	1965
Balance at April 1	\$ 1,060,000	\$ 1,076,000
Earnings on investments	59,000	58,000
	<u>1,119,000</u>	<u>1,134,000</u>
Awards approved during year	73,000	78,000
Less: Cancellation of awards approved in prior year	11,000	4,000
	<u>62,000</u>	<u>74,000</u>
Balance at March 31	<u>\$ 1,057,000</u>	<u>\$ 1,060,000</u>

Two categories of awards have been approved by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. During the year the value of a fellowship was increased and it now ranges from \$3,700 to \$7,000 per annum, plus a travel grant and children's allowance where applicable. Two new and two renewal fellowships totalling \$25,600 were awarded during the year.

The second category covers the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 per annum for the first three years and \$5,000 per annum for the next following three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Fund. One such appointment was made during the year and provision for the \$45,000 which it is expected will be ultimately expended was made in the Fund's accounts. The Fund continues to support four appointees of prior years and the outstanding liability of \$60,000 in this connection was included in the total provision of \$133,000 for awards approved, appearing in the balance sheet of the Fund at March 31, 1966.

239. *Roosevelt Campobello International Park Commission.* The Roosevelt Campobello International Park had its origin in the donation of the Roosevelt cottage and surrounding grounds on Campobello Island, New Brunswick, to Canada and the United States of America as a memorial to President Franklin Delano Roosevelt. Subsequent negotiations between the two countries culminated in a joint agreement of acceptance signed on January 22, 1964 which established the Commission. This was followed by the enactment in each country of the required legislation, the Roosevelt Campobello International Park Commission Act, 1964-65, c.19, being assented to in Canada on June 30, 1964 and proclaimed on August 14, 1964. The agreement provides for all costs of development and maintenance of the Park to be recovered in equal shares from the Governments of Canada and the United States of America. The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

The fiscal year-end was changed to December 31 by a resolution of the Commission and accordingly our examination of its accounts covered the nine-month period from April 1, 1965 to December 31, 1965. Our report on the examination was made to the Commission under date of March 14, 1966.

Proprietary equity totalled \$463,000, represented by: cash, \$245,000; land and building, \$221,000; other assets, \$9,000; less accounts payable and deferred income, \$12,000.

Expense totalling \$57,000 comprised: salaries and wages, \$41,000; repairs and maintenance, \$5,000; travel, \$4,000; publications, \$2,000; and other, \$5,000. Capital expenditures were for property improvements, \$21,000 and equipment, \$6,000.

240. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of, and are examined with, departmental revenue and expenditure. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c.315, requires that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". We inspected these stores as at March 31, 1966 and reported thereon to the Deputy Minister of Finance. The stocks of bullion and metals at cost and coin at face value held by the Mint at that date amounted to \$14,794,000 comprising: gold, \$1,874,000; silver, \$10,385,000; bronze, \$1,070,000; nickel, \$1,454,000; and other metals, \$11,000.

241. *Unemployment Insurance Fund.* The Unemployment Insurance Act, 1955, c.50 (superseding 1940, c.44), provides for insurance against unemployment and for the maintenance of a national employment service. To March 31, 1965 the Act was wholly administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. With effect from April 1, 1965, the powers, duties and functions of the Commission relating to the National Employment Service were transferred to the Department of Labour under authority delegated to the Governor in Council by Department of Labour Vote 7a, Appropriation Act No. 10, 1964, 1964-65, c.34. Effective January 1, 1966, under authority delegated to the Governor in Council by the Public Service Rearrangement and Transfer of Duties Act, R.S., c.227, the control or supervision of the National Employment Service was transferred from the Minister of Labour to the Minister of Citizenship and Immigration.

During the year the Unemployment Insurance Commission was assigned responsibility for administration of the Transitional Assistance Plan under which workers in automotive manufacturing and parts industries who become unemployed as the result of the operation of the Canada-United States Agreement on Automotive Products may be given financial assistance in addition to that provided by unemployment insurance during the period required to adjust to new employment conditions.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers and Federal Government contributions equivalent to one-fifth of the total employee-employer contributions, together with interest on investments, are credited, and to which benefits and other payments under the Act are charged.

Financial statements showing the state of the Fund at the end of the fiscal year and the operations of the Fund during the year are prepared annually by the Commission. In our 1960 and subsequent Reports attention was drawn to the fact that the Act does not require that these financial statements be audited. The Public Accounts Committee made reference to this in its Fifth Report 1961, Fourth Report 1963 and Fourth Report 1964 (see Appendix 1, item 9) recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended, the Commission has submitted its financial statements for the past five years to the Audit Office for examination, and the statements for the

year ended March 31, 1966, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 44.6 to 44.9.

The following is a comparative summary of the Fund's transactions for the past three years, together with the year-end balance at the credit of the Fund:

	1965-66	1964-65	1963-64
Receipts—			
Contributions from employers and employees . . .	\$ 328,318,000	\$ 310,751,000	\$ 296,586,000
Contributions from Government of Canada . . .	65,664,000	62,150,000	59,317,000
Other income	4,817,000	1,914,000	1,172,000
	<u>398,799,000</u>	<u>374,815,000</u>	<u>357,075,000</u>
Disbursements—			
Benefit payments	297,813,000	335,030,000	365,655,000
Interest on advances	—	163,000	238,000
	<u>297,813,000</u>	<u>335,193,000</u>	<u>365,893,000</u>
Excess of receipts over disbursements	\$ 100,986,000	\$ 39,622,000	\$ (8,818,000)
Balance at credit of the Fund	<u>\$ 141,483,000</u>	<u>\$ 40,497,000</u>	<u>\$ 875,000</u>

The annual disbursements shown above do not include the administrative expenses of the Commission which are charged to Unemployment Insurance Commission Vote 1 in accordance with section 10 of the Act. These expenses amounted to \$32,374,000 in 1965-66 compared with \$54,254,000 for the preceding year. This latter figure, however, includes administrative expenses of the National Employment Service estimated at \$21,612,000, so that the comparable figure attributable to unemployment insurance activities for 1964-65 is \$32,642,000. Other administrative expenses which are not included are the value of accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation Account, accounting services provided by the Comptroller of the Treasury and other services provided by government departments, all of which were estimated at \$6,614,000 (\$6,421,000 for 1964-65 excluding National Employment Service expenses).

Despite higher salary and wage rates in 1965-66, total administrative expenses were slightly lower than those of the preceding year. This was due mainly to expenses associated with a program of registering employees insured under the Unemployment Insurance Act being some \$1,500,000 lower than those incurred in the previous year and to the fact that 47 local, branch or zone offices were closed during the year. The program of converting old insurance registration numbers to new, begun in 1963-64, was virtually completed in 1964-65 and costs of \$955,000 incurred on the registration program in 1965-66, which was continued primarily for the purpose of registering applicants under the Canada Pension Plan, were recovered from the Plan. Also recovered from the Canada Pension Plan were a percentage of the operating costs of the central index section and an administration overhead charge. These, subject to adjustment in the following year, totalled \$405,000.

Reference was made in last year's Report (paragraph 72) to the installation of electronic data processing equipment in a centralized claims payment centre in Winnipeg to handle payment of unemployment insurance benefits for the Prairie Region and to its abandonment, in June 1965, due to unsatisfactory performance. Further studies have since been carried out in Ottawa with the aim of developing a computer-oriented claims pay system which could eventually be operational in each of the Commission's five regional offices and possibly, at a later date, on a national rather than a regional basis, and studies are continuing along this line.

In 1965-66 receipts of the Unemployment Insurance Fund exceeded disbursements, the surplus amounting to \$100,986,000 compared with a surplus of \$39,622,000 in 1964-65 and a deficit of \$8,818,000 in 1963-64. This substantial improvement, which is a continuation of an upward trend which commenced in 1961-62, is attributable to fewer benefit payments and claimants having shorter periods on claim in each year. Comparisons follow:

	<u>1965-66</u>	<u>1964-65</u>	<u>1963-64</u>
Average monthly percentage of the insured population drawing benefit	5.5%	6.3%	7.2%
Number of initial benefit claims allowed	1,036,102	1,135,931	1,197,421
Average number of benefit weeks paid	12.6	13.0	13.1
Average weekly benefit rate paid	\$24.55	\$24.55	\$24.49

All security transactions of the Fund in the year were in a special Government of Canada issue which is redeemable at par subject to 30 days notice, and thus no gains or losses on sales were incurred.

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Prompt attention was given to all audit observations raised and corrective action was taken where required. Our examinations are designed primarily to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is also tested. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission, beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff.

No attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's internal audit division.

242. Yukon Territorial Government. The Yukon Act, 1952-53, c.53, provides for the appointment by the Governor in Council of a chief executive officer for the Territory to be known as the Commissioner and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the government of the Territory in those fields normally within provincial jurisdiction.

AUDITOR GENERAL'S REPORT

The accounts and financial transactions of the Territory are subject to examination by the Auditor General of Canada in accordance with section 26 of the Act. An amendment to the Act (1966-67, c. 28) provides for the preparation of an annual report, called the Territorial Accounts, to include a report on the financial transactions of the year, certain financial statements and supporting and additional information. A further requirement is that the Auditor General report annually to the Council the result of his examination in a specified manner which includes certification of the financial statements. Accordingly, my report to the Council for the year ended March 31, 1966 was made in compliance with the amended legislation.

The following is a summary of expenditure and revenue of the Government of the Yukon Territory for the year ended March 31, 1966, with comparable amounts for the preceding year:

	Year ended March 31	
	1966	1965
Expenditure—		
Education	\$ 1,859,000	\$ 1,606,000
Capital projects	2,727,000	1,595,000
Roads, bridges and public works	1,452,000	1,356,000
Yukon Hospital Insurance Services	651,000	668,000
Welfare	486,000	445,000
Justice	482,000	538,000
Vocational training	351,000	302,000
Municipal and area development	337,000	290,000
Health	290,000	301,000
Loan interest	332,000	267,000
Other	849,000	669,000
	<hr/> 9,816,000	<hr/> 8,037,000
Revenue—		
Federal grants:		
Operating	2,111,000	1,868,000
Loan amortization	518,000	434,000
	<hr/> 2,629,000	<hr/> 2,302,000
Tax revenue	906,000	969,000
Liquor profits	927,000	884,000
Licence revenue	291,000	286,000
Other	366,000	316,000
	<hr/> 2,490,000	<hr/> 2,455,000
Expenditure recoveries:		
Capital projects	1,063,000	840,000
Roads, bridges and public works	973,000	821,000
Education	469,000	447,000
Yukon Hospital Insurance Services	403,000	439,000
Other	587,000	530,000
	<hr/> 3,495,000	<hr/> 3,077,000
	<hr/> 8,614,000	<hr/> 7,834,000
Excess of expenditure over revenue	<hr/> \$ 1,202,000	<hr/> \$ 203,000

Loans repayable to the Federal Government at the close of the year amounted to \$8,540,000, an increase of \$1,685,000 over the preceding year's total of \$6,855,000.

Under the Federal-Territorial financial agreement for the five-year period ending March 31, 1967, Canada agreed to make certain annual payments to the Territory in return for which the Territory agreed to refrain from imposing, levying or collecting individual and corporation income taxes and succession duties. One of the payments for which the agreement provides is an amortization subsidy in respect of outstanding loans. For the year ended March 31, 1966 an amount of \$518,000 was involved, of which \$263,000 related to interest and \$255,000 was for the purpose of reducing the principal of the loans. A result of this particular annual payment is that the Federal Government provides funds to cover the payment of interest to itself and also to repay amounts previously appropriated for the purpose of making the loans to the Territory.

* * * * *

I wish to record my appreciation to all members of the staff of the Audit Office for their loyalty and devotion to duty during the past year.

On February 3, 1966 one of my Directors, Mr. Stewart E. Chapman, commenced a well earned retirement after thirty-seven years service in the Audit Office. Mr. Chapman enjoyed excellent working relationship with the various departments and was held in high regard by all members of our staff.

On January 1, 1966 Mr. George Long was appointed Assistant Auditor General after serving in an acting capacity following secondment of Mr. Ian Stevenson, Assistant Auditor General, to the North Atlantic Treaty Organization Board of Auditors for Infrastructure Accounts.

A. M. HENDERSON

Auditor General of Canada.

November 30, 1966.

APPENDICES

- Recommendations and Observations by the Standing Committee on Public Accounts
not yet implemented or dealt with by Executive action Appendix 1
- Summary of Employees of the Public Service, by Departments, Crown Corporations
and Other Instrumentalities authorized and on strength as at March 31, 1966
(with comparative figures as at March 31, 1965) Appendix 2
- Summary of Expenditure by Standard Objects for the fiscal year ended March 31,
1966 (with comparative figures for the preceding fiscal year) Appendix 3

APPENDIX 1

RECOMMENDATIONS AND OBSERVATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET IMPLEMENTED OR DEALT WITH BY EXECUTIVE ACTION

Fourth Report 1963—presented to the House on December 19, 1963

1. **SECOND CLASS MAIL.** The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

In its Fourth Report 1966 the Committee stated that it feels that there is something wrong when no action has been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes have been made, the annual loss has continued to increase and the Committee is of the opinion that sufficient consideration has not been given to the solution of this problem. It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. *See paragraph 114 of this Report.*

2. **DEPARTMENTAL OPERATING ACTIVITIES.** The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course. *See paragraph 216 of this Report.*
3. **INTERNAL FINANCIAL CONTROL.** The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.
4. **UNEMPLOYMENT ASSISTANCE.** The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field. *See paragraph 97 of this Report.*

Fourth Report 1964—presented to the House on July 28, 1964

5. **FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION.** The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and

methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament. *See paragraph 7 of this Report.*

6. **THE FORM AND CONTENT OF THE ESTIMATES.** In its Third Report 1963 tabled in the House on December 19, 1963 the Committee made four recommendations of which the following two have not yet been implemented:
- (a) inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations; and
 - (b) inclusion of brief notes in the Estimates explaining proposed major increases in the size of staff establishments of all government departments and the Crown corporations and other public instrumentalities referred to under clause (a) above.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

7. **LIVING ALLOWANCES TO FEDERALLY-APPOINTED JUDGES.** In its Fourth Report 1963 the Committee had noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It had therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

The Committee recorded that, despite this recommendation, a case had since been noted where a rate of \$100 a day was approved on May 7, 1964 by the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

The Committee reiterated the recommendation made in its Fourth Report 1963 that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought. *See paragraph 71 of this Report.*

8. **GOVERNOR GENERAL'S SPECIAL WARRANTS.** The Committee recommended that a study be made of Governor General's special warrants. *See paragraph 48 of this Report.*
9. **UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION.** The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General. *See paragraph 241 of this Report.*

10. **OFFICE OF THE AUDITOR GENERAL.** In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

In its Third Report 1966 the Committee reiterated its opinion that as an officer of Parliament the Auditor General should have the right to recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament and added that the Auditor General's establishment should continue to be set in the same manner as government departments. *See paragraph 8 of this Report.*

Fifth Report 1964—presented to the House on August 5, 1964 Canadian Broadcasting Corporation

11. **REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION.** The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House. *See paragraph 192 of this Report.*

Sixth Report 1964—presented to the House on October 20, 1964

12. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop. *See paragraphs 76 and 77 of this Report.*
13. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.
14. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town.
15. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.
16. PENSION AWARDS EFFECTIVE AT EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

In its Sixth Report 1966 the Committee noted that the departmental studies were almost complete but that it would take some time for the Department to examine them and arrive at conclusions. The Committee requested the Auditor General to keep Members of the House informed of the progress being made. *See paragraph 81 of this Report.*
17. DISCRETIONARY AWARDS OF SERVICE PENSIONS. The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system.

In its Sixth Report 1966 the Committee, while noting that the study had been stopped pending completion of integration of the Armed Forces, again expressed the opinion that it is desirable that entitlement to all pensions be specific and requested the Auditor General to continue to keep the Members of the House informed of the progress being made by the Department toward revising the present system.
18. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it

regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

In its Seventh Report 1966 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed. *See paragraph 63 of this Report.*

19. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

In its Seventh Report 1966 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General. *See also item 41 of this Appendix and paragraphs 172 and 207 of this Report.*

20. ACCOUNTS RECEIVABLE. The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced. *See paragraph 173 of this Report.*

21. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services

provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of \$100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of \$100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded. *See paragraph 62 of this Report.*

22. THE CANADA COUNCIL. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund. *See paragraph 230 of this Report.*

Seventh Report 1964—presented to the House on December 7, 1964 Surplus Assets Disposal

23. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations

approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Eighth Report 1964—presented to the House on December 7, 1964

24. HOSPITAL CONSTRUCTION GRANTS. The Committee stated it shared the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.
25. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act (*see paragraph 140 of this Report*):
 - (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";
 - (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;
 - (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
 - (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
 - (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.
26. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (*see paragraph 141 of this Report*):
 - (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases

had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

27. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following two have not yet been implemented (*see paragraph 105 of this Report*):

(a) Sales of goods unclaimed at Customs—

that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.

(b) Determination of 'sale price' for sales tax purposes—

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

In reiterating these recommendations in its Fifth Report 1966, the Committee stated that it was disturbed that no attention had been paid to them. The Committee then made one additional recommendation:

- (c) Refund of duty paid on goods diverted to use other than that for which they were imported—
that an amendment be made to the Customs Act to give statutory sanction to the practice of the Department of granting refunds of duty in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported.

28. GENERAL ELECTION EXPENDITURE. The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date. *See paragraph 57 of this Report.*

29. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966 the Committee repeated this recommendation. *See paragraphs 8 and 188 of this Report.*

30. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

In its Third Report 1966 the Committee reiterated this recommendation. *See paragraph 8 of this Report.*

Third Report 1966—presented to the House on June 28, 1966

31. THE ST. LAWRENCE SEAWAY AUTHORITY. The Committee expressed concern regarding the transaction referred to in paragraph 125 of the Auditor General's 1965 Report which involved a piece of property expropriated in 1955 with the expropriation being abandoned early in 1956. The property was eventually purchased in 1964 at a substantially higher price. On November 8, 1966 the Committee asked a subcommittee to inquire into this transaction and to report back to the main Committee. *See paragraph 214 of this Report.*
32. SALARY OF THE AUDITOR GENERAL. The Committee noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal has been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada. *See paragraph 8 of this Report.*

33. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee requested the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government. *See paragraph 8 of this Report.*

34. **STANDING COMMITTEE ON PUBLIC ACCOUNTS.** The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

Fourth Report 1966—presented to the House on October 17, 1966

35. **CHARGES FOR POST OFFICE LOCK BOXES AND BAG SERVICE.** The Committee noted that certain Post Office patrons with a heavy volume of mail had lock boxes rented although these would not hold all the mail being received and bag service was being provided to the patron without additional charge. Such patrons are thus being provided with a free service which is not available to other patrons and in some instances lock boxes are tied up which could be used by other patrons. The Committee understands that the Post Office Department has been trying to solve this problem and it insists that the Department expedite its efforts in this connection with a view to having patrons pay equally for services rendered to them and wherever possible to releasing lock boxes which are required by other patrons.
36. **POST OFFICE SAVINGS BANK.** The Committee noted that the Post Office Department was currently giving consideration to changes required in order that unclaimed balances in the accounts of the Post Office Savings Bank may be dealt with in a manner similar to that in which unclaimed balances in chartered banks are handled. The Committee concurred in this action and insists that the Department bring the matter to a conclusion as soon as possible. *See paragraph 116 of this Report.*

Fifth Report 1966—presented to the House on October 19, 1966

37. **POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS.** The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

38. **DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS.** The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act, as amended, directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

39. **TAX EXEMPTIONS FOR PARTICULAR GROUPS.** Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

40. **CUSTOMS AND EXCISE LABORATORY.** The Committee recommended that the Customs and Excise Division of the Department of National Revenue review its laboratory operations in line with the Treasury Board's objective of promoting the earning of non-tax revenue and that it institute a tariff of fees for services rendered for the benefit of exporters and/or importers designed to cover the cost of providing those services. If the Department, after reviewing its laboratory activities, is still of the opinion that establishment of a tariff of fees is not warranted, the Committee recommends that it lay the facts before the Treasury Board seeking the Board's approval for the continuation of the laboratory as a free service.

Seventh Report 1966—presented to the House on October 26, 1966

41. **LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS.** The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 19) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating \$14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course. *See paragraphs 54 and 56 of this Report.*

42. **ADVANCES TO CANADIAN CORPORATION FOR THE 1967 WORLD EXHIBITION.** The Committee took note of the circumstances under which the Government of Canada is purchasing securities issued by the Canadian Corporation for the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of \$40 million, of which \$20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Act, were fully paid over to the Corporation in 1965 the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directed the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of \$143 million (less \$40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada. *See paragraphs 56 and 194 of this Report.*

43. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee. *See paragraph 51 of this Report.*

Eighth Report 1966—presented to the House on November 3, 1966

44. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of \$43,346 but the work actually performed under the contract amounted to \$130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

45. COST OF SALVAGING SUNKEN VESSEL. The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future. *See paragraph 132 of this Report.*
46. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of \$20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of \$130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of \$20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urges the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

47. COST OF FAULTY PLANNING IN FERRY DESIGN. A non-productive payment of \$55,000 resulted when the architects working on the design of a new ferry vessel were told that provision would have to be made for rail car weights in excess of those contemplated in the original planning.

The Committee closely questioned witnesses from the Department of Transport and the Canadian National Railways in an attempt to ascertain why the proper specifications had not been established before the architects were asked to commence work. There was no question in the minds of the members of the Committee that liaison between the Department and the Railways was not as good as it should have been, but due to somewhat conflicting evidence it was not possible to establish definitely with which organization the responsibility lay.

The Committee requested the Department to see to it that in future, as directed by the Treasury Board, basic data be completely verified prior to placing it in the hands of architects for the preparation of plans and specifications.

48. INTERNAL AUDIT GROUP—DEPARTMENT OF NORTHERN AFFAIRS AND NATIONAL RESOURCES. When considering inadequate accounting and financial control procedures in the Department, the Committee was pleased to learn that the Department had been strengthened by a reorganization of its total administration, including the introduction of positions for financial and management advisers. The Committee suggested that the reorganization extend to the establishment of an internal audit group with as little delay as possible.
49. INADEQUATE CONTROL OF STORES AT NORTHERN LOCATIONS. Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Committee stated that it regards this matter as being of the utmost importance and urged the Department of Northern Affairs and National Resources to establish adequate controls on all stores in the North with the least possible delay. *See paragraph 112 of this Report.*

APPENDIX 2

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE,
BY DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIESAuthorized and on Strength as at March 31, 1966
(with comparative figures as at March 31, 1965)

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
			DEPARTMENTS (Note 1)—			
			Agriculture—			
513	457	56	Administration Branch.....	456	419	37
3,956	3,972	(16)	Research Branch.....	3,587	3,301	286
2,081	2,097	(16)	Production and Marketing Branch.....	2,049	1,950	99
1,729	1,662	67	Health of Animals Branch.....	1,626	1,525	101
1,254	1,238	16	Prairie Farm Rehabilitation Administration.....	1,070	991	79
75	75	—	Prairie Farm Assistance Administration.....	71	74	(3)
874	879	(5)	Board of Grain Commissioners.....	819	813	6
185	185	—	Canadian Government Elevators.....	157	165	(8)
10,667	10,565	102		9,835	9,238	597
18	16	2	Atomic Energy Control Board.....	18	16	2
221	221	—	Auditor General's Office.....	197	176	21
42	39	3	Board of Broadcast Governors.....	39	36	3
36	20	16	Chief Electoral Officer.....	36	20	16
			Citizenship and Immigration—			
434	221	213	Administration.....	331	189	142
231	213	18	Citizenship Branch.....	214	209	5
2,051	2,008	43	Immigration Branch.....	1,843	1,761	82
—	3,993	(3,993)	Indian Affairs Branch.....	—	3,856	(3,856)
60	—	60	Economics and Research Branch.....	72	—	72
24	—	24	Civilian Rehabilitation Branch.....	15	—	15
17	—	17	Special Services Branch.....	14	—	14
14	—	14	Manpower Consultative Service.....	11	—	11
60	—	60	Technical and Vocational Training Assistance Branch.....	48	—	48
5,046	—	5,046	National Employment Service.....	4,260	—	4,260
7,937	6,435	1,502		6,808	6,015	793
<p>The increases in employees authorized and on strength at March 31, 1966 result in part from the takeover from the Department of Labour effective January 1, 1966 of part of the Administration, Economics and Research and Special Services Branches (251 positions), the whole of the Civilian Rehabilitation, Manpower Consultative Service and Technical and Vocational Training Assistance Branches (98 positions) and the National Employment Service (5,046 positions) offset by the transfer to the Department of Northern Affairs and National Resources of the Indian Affairs Branch (4,733 positions), a net increase of 662 positions.</p>						
			Civil Service Commission—			
33	11	22	Commissioners and Staff.....	17	9	8
120	134	(14)	Personnel and Administration Branch.....	83	127	(44)
710	476	234	Staffing Branch.....	693	488	205
147	145	2	Bureau of Classification Revision.....	126	115	11
71	114	(43)	Advisory Services and Appeals Branch.....	62	98	(36)
17	17	—	Pay and Standards Branch.....	10	10	—
49	39	10	Pay Research Bureau.....	48	40	8
1,147	936	211		1,039	887	152

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
			DEPARTMENTS—Continued			
			Defence Production—			
14	12	2	Deputy Minister's Office.....	16	10	6
1,069	903	166	Finance, Administration and Legal Branches.....	1,022	795	227
153	155	(2)	International Programs.....	156	137	19
980	912	68	Purchasing Services.....	886	817	69
871	553	318	Canadian Government Supply Service.....	675	454	221
			Canadian Government Printing Bureau—			
162	160	2	Finance and Administration.....	170	149	21
797	798	(1)	Printing Production (Main Plant).....	670	716	(46)
491	491	—	Printing Production (Outside Plants).....	500	444	56
			Canada Emergency Measures Organization—			
113	111	2	Emergency Measures.....	100	85	15
102	102	—	Emergency Measures College.....	98	101	(3)
4,752	4,197	555		4,293	3,708	585
			External Affairs—			
2,824	2,570	254	External Affairs.....	2,565	2,435	130
286	182	104	External Aid Office.....	190	167	23
12	12	—	International Joint Commission.....	11	11	—
3,122	2,764	358		2,766	2,613	153
			Finance—			
529	422	107	Administration.....	414	339	75
			Comptroller of the Treasury—			
197	157	40	Headquarters.....	148	135	13
517	402	115	Regional Offices.....	593	401	192
2,940	2,974	(34)	Treasury Offices.....	2,813	2,966	(153)
376	373	3	Audit Services Branch.....	335	330	5
120	118	2	Cheque Adjustment Division.....	115	111	4
444	427	17	Central Services Branch.....	446	417	29
33	31	2	Securities Deposit Division.....	33	29	4
401	374	27	Royal Canadian Mint.....	389	362	27
217	203	14	Superannuation Branch.....	186	183	3
43	44	(1)	Tariff Board.....	43	42	1
28	22	6	Guaranteed Loans Division.....	28	19	9
4	4	—	Inspector General of Banks.....	4	4	—
10	10	—	Municipal Development and Loan Board.....	8	8	—
5,859	5,561	298		5,555	5,346	209
			Fisheries—			
96	90	6	Administration.....	78	70	8
188	192	(4)	Field Service Administration.....	182	173	9
995	967	28	Conservation and Development Services.....	788	806	(18)
342	332	10	Inspection Services.....	310	311	(1)
272	259	13	Miscellaneous Services.....	256	224	32
804	770	34	Fisheries Research Board.....	701	644	57
2,697	2,610	87		2,315	2,228	87
			Forestry—			
165	157	8	Departmental Administration.....	139	153	(14)
1,184	1,209	(25)	Forestry Branch.....	1,101	1,023	78
138	117	21	Rural Development.....	97	78	19
1,487	1,483	4		1,337	1,254	83
63	30	33	Governor General and Lieutenant-Governors.....	55	29	26
			Industry—			
14	13	1	Minister's Office.....	9	10	(1)
14	14	—	Deputy Minister's Office.....	14	14	—
53	47	6	Aircraft Branch.....	41	33	8
46	43	3	Area Development Agency.....	33	34	(1)
52	52	—	Chemicals Branch.....	25	22	3
38	38	—	Clothing and Textiles Branch.....	28	22	6
70	69	1	Electrical and Electronics Branch.....	50	43	7

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
53	53	—	Food Products Branch.....	24	21	3
42	42	—	Machinery Branch.....	26	21	5
41	38	3	Materials Branch.....	34	29	5
38	38	—	Mechanical Transport Branch.....	25	16	9
62	50	12	National Design Branch.....	50	23	27
57	57	—	Program Advisory Group.....	40	32	8
35	35	—	Shipbuilding Branch.....	18	19	(1)
55	55	—	Wood Products Branch.....	32	29	3
670	644	26		449	368	81
121	112	9	Insurance.....	109	104	5
Justice—						
422	378	44	Administration.....	373	342	31
183	144	39	National Parole Board.....	144	114	30
Penitentiaries—						
111	110	1	Headquarters.....	108	107	1
4,288	3,589	699	Institutions.....	3,714	3,223	491
5,004	4,221	783		4,339	3,786	553
Labour—						
288	250	38	Administration.....	257	229	28
72	146	(74)	Economics and Research Branch.....	68	128	(60)
57	57	—	Industrial Relations Branch.....	51	53	(2)
—	15	(15)	Civilian Rehabilitation Branch.....	—	14	(14)
22	43	(21)	Special Services Branch.....	18	40	(22)
—	12	(12)	Manpower Consultative Service Branch.....	—	8	(8)
—	56	(56)	Technical and Vocational Training Assistance Branch.....	—	54	(54)
147	171	(24)	Annuities Branch.....	138	157	(19)
18	21	(3)	Accident Prevention and Compensation Branch.....	16	20	(4)
60	23	37	Labour Standards Branch.....	52	20	32
Unemployment Insurance Commission—						
532	630	(98)	Head Office.....	413	515	(102)
809	1,192	(383)	Atlantic Region.....	748	1,124	(376)
1,951	3,174	(1,223)	Quebec Region.....	1,745	2,928	(1,183)
1,884	3,469	(1,585)	Ontario Region.....	1,690	3,185	(1,495)
780	1,526	(746)	Prairie Region.....	711	1,434	(723)
685	1,188	(503)	Pacific Region.....	596	1,098	(502)
7,305	11,973	(4,668)		6,503	11,007	(4,504)
The decrease in employees authorized and on strength at March 31, 1966 results from the transfer to the Department of Citizenship and Immigration effective January 1, 1966 of part of the Administration, Economics and Research and Special Services Branches (251 positions), the whole of the Civilian Rehabilitation, Manpower Consultative Service and Technical and Vocational Training Assistance Branches (98 positions) and the National Employment Service (5,046 positions), a decrease of 5,395 positions.						
Legislation—						
209	204	5	Senate.....	196	191	5
1,048	978	70	House of Commons.....	1,015	950	65
71	62	9	Library of Parliament.....	71	60	11
1,328	1,244	84		1,282	1,201	81
Mines and Technical Surveys—						
319	291	28	Administration.....	308	289	19
810	803	7	Surveys and Mapping Branch.....	774	738	36
1,075	883	192	Marine Sciences Branch.....	1,020	788	232
471	457	14	Geological Survey.....	450	443	7

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
676	647	29	Mines Branch.....	641	613	28
119	111	8	Geographical Branch.....	110	90	20
182	179	3	Observatories Branch.....	180	171	9
57	61	(4)	Polar Continental Shelf Project.....	47	54	(7)
320	—	320	Water Resources Branch.....	305	—	305
29	—	29	Resources Development Branch.....	10	—	10
17	17	—	Dominion Coal Board.....	16	17	(1)
102	86	16	National Energy Board.....	90	74	16
4,177	3,535	642		3,951	3,277	674
The increases in employees authorized and on strength at March 31, 1966 result in part from the transfer from the Department of Northern Affairs and National Resources effective January 1, 1966 of the Water Resources and Resources Development Branches involving 314 positions on that date.						
National Defence (Civilian Staffs)—						
739	716	23	Departmental Administration.....	621	560	61
43,579	46,472	(2,893)	Defence Services.....	41,084	41,274	(190)
2,881	2,881	—	Defence Research Board.....	2,654	2,625	29
47,199	50,069	(2,870)		44,359	44,459	(100)
77	73	4	National Gallery of Canada.....	70	64	6
National Health and Welfare—						
434	392	42	Departmental Administration.....	397	376	21
Health Services—						
754	544	267	Health Services Branch.....	689	499	237
57	—	57	Health Insurance and Resources Branch.....	47	—	47
3,548	3,399	149	Medical Services Branch.....	3,177	3,170	7
755	635	120	Food and Drug Branch.....	705	599	106
Welfare Services—						
995	818	177	Income Security Branch.....	893	751	142
72	42	30	Welfare Assistance and Services Branch.....	47	42	5
44	37	7	Special Programs Branch.....	40	37	3
6,659	5,867	792		5,995	5,474	521
National Research Council, including the Medical Research Council—						
1,378	1,324	54	Administration and Services.....	1,375	1,322	53
1,967	1,929	38	Scientific and Engineering Divisions.....	1,962	1,915	47
6	6	—	Medical Research Council.....	5	6	(1)
3,351	3,259	92		3,342	3,243	99
National Revenue—						
Customs and Excise—						
726	713	13	General Administration.....	672	656	16
249	312	(63)	Checking, Refunds and Drawbacks.....	242	285	(43)
1,205	1,185	20	Excise Duty and Excise Tax.....	1,137	1,113	24
151	149	2	Customs Inspection and Investigation.....	148	146	2
5,612	5,794	(182)	Ports.....	5,478	5,475	3
Taxation Division—						
651	622	29	Head Office.....	588	557	31
2,512	2,576	(64)	Data Centre (Ottawa).....	2,312	2,029	283
6,427	5,649	778	District Offices.....	5,867	5,390	477
22	22	—	Tax Appeal Board.....	22	21	1
17,555	17,022	533		16,466	15,672	794
Northern Affairs and National Resources—						
250	226	24	Departmental Administration.....	245	208	37
58	—	58	Resources and Economic Development.....	56	—	56
—	277	(277)	Water Resources Branch.....	—	256	(256)

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
			DEPARTMENTS—Continued			
107	85	22	National Parks Branch—			
3,157	2,476	681	Administration.....	89	74	15
			Operation and Maintenance of National Parks and Historic Sites and Monuments.....	2,175	2,265	(90)
133	91	42	Canadian Wildlife Services.....	100	79	21
158	186	(28)	Northern Administration Branch—			
531	510	21	Administration.....	150	170	(20)
197	162	35	Education Division.....	529	476	53
866	663	203	Welfare and Industrial Division.....	166	132	34
54	62	(8)	Northwest Territories and Other Field Services...	790	613	177
			Yukon Territory.....	44	59	(15)
698	—	698	Indian Affairs Branch—			
1,749	—	1,749	Administration.....	632	—	632
2,286	—	2,286	Development.....	1,622	—	1,622
10,244	4,738	5,506	Education.....	2,228	—	2,228
				8,826	4,332	4,494
The increases in employees authorized and on strength at March 31, 1966 reflect the takeover from the Department of Citizenship and Immigration effective January 1, 1966 of the Indian Affairs Branch (4,733 positions) and the transfer to the Department of Mines and Technical Surveys on that date of the Water Resources and Resources Development Branches (314 positions), a net gain of 4,419 positions.						
1,027	1,019	8	Post Office—			
990	949	41	Headquarters.....	973	943	30
477	558	(81)	District Offices.....	965	926	39
28,395	27,006	1,389	Railway Mail Service.....	350	444	(94)
1,201	913	288	Staff Post Offices.....	27,975	26,770	1,205
32,090	30,445	1,645	Casuals.....	1,201	913	288
				31,464	29,996	1,468
162	137	25	Privy Council—			
7	7	—	Privy Council Office.....	148	116	32
111	100	11	Prime Minister's Residence.....	6	6	—
280	244	36	Economic Council of Canada.....	105	84	21
				259	206	53
Public Archives and National Library—						
Public Archives—						
1	1	—	Dominion Archivist.....	1	1	—
15	16	(1)	Assistant Dominion Archivist.....	15	15	—
76	62	14	Administration and Technical Services.....	61	55	6
96	86	10	Historical Branch.....	79	72	7
53	47	6	Records Management Branch.....	45	36	9
National Library—						
1	1	—	National Librarian.....	1	1	—
32	25	7	Assistant National Librarian.....	19	12	7
55	50	5	Cataloguing Division.....	43	30	13
92	84	8	Reference Division.....	72	62	10
421	372	49		336	284	52
Public Printing and Stationery—						
Publications Branch—						
39	32	7	Departmental Administration.....	35	30	5
185	164	21	Distribution of Official Documents including print procurement.....	170	154	16
224	196	28		205	184	21
Public Works—						
2,357	1,917	440	General Administration.....	2,152	1,708	444

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
DEPARTMENTS—Continued						
Maintenance and Operation of Public Buildings and Grounds—						
2,533	2,619	(86)	Ottawa and Hull.....	2,186	2,308	(122)
4,338	4,436	(98)	Other than at Ottawa and Hull.....	3,804	3,998	(194)
749	744	5	Harbours and Rivers Engineering Services.....	703	686	17
531	940	(409)	Roads, Bridges and Other Engineering Services.....	441	794	(353)
162	167	(5)	Testing Laboratories.....	149	152	(3)
10,670	10,823	(153)		9,435	9,646	(211)
In some instances, the differences between 1966 and 1965 figures are in large part attributable to transfers of positions between units.						
Royal Canadian Mounted Police (Civilian Staffs)—						
673	647	26	Headquarters.....	640	621	19
1,009	1,009	—	Land, Air and Training Division.....	980	957	23
12	12	—	Marine Services.....	11	10	1
1,694	1,668	26		1,631	1,588	43
Secretary of State—						
107	75	32	Departmental Administration.....	107	76	31
32	36	(4)	Companies and Corporations Branch.....	31	35	(4)
434	399	35	Bureau for Translations.....	395	356	39
184	134	50	National Museum.....	150	117	33
54	53	1	Trade Marks Office.....	53	53	—
396	385	11	Patent and Copyright Office.....	382	367	15
18	18	—	Office of the Representation Commissioner.....	14	16	(2)
1,225	1,100	125		1,132	1,020	112
Trade and Commerce—						
633	593	40	Departmental Administration.....	559	526	33
710	667	43	Trade Commissioner Service.....	696	656	40
498	484	14	Standards Branch.....	471	468	3
228	183	45	Exhibitions Branch.....	220	169	51
275	251	24	Canadian Government Travel Bureau.....	262	223	39
70	56	14	Canadian Government Participation 1967 Exhibition.	53	46	7
2,631	2,350	281	Dominion Bureau of Statistics.....	2,585	2,240	345
5,045	4,584	461		4,846	4,328	518
Transport—						
718	694	24	Departmental Administration.....	626	634	(8)
Marine Services—						
2,162	2,040	122	Marine Administration and Marine Works.....	2,170	2,057	113
2,218	2,056	162	Marine Operations.....	2,129	1,879	250
494	478	16	Marine Regulations.....	408	406	2
91	68	23	Marine Hydraulics.....	83	70	13
Air Services—						
476	479	(3)	Administration.....	454	438	16
1,769	1,715	54	Control of Civil Aviation and Air Traffic Control..	1,604	1,528	76
2,539	2,380	159	Airports and Property Management.....	2,417	2,336	81
583	575	8	Construction Branch.....	664	660	4
2,658	2,528	130	Telecommunications and Electronics Branch.....	2,504	2,427	77
2,485	2,407	78	Meteorological Branch.....	2,236	2,162	74
522	496	26	Radio Regulations.....	493	449	44
97	93	4	Air Transport Board.....	89	87	2
187	178	9	Board of Transport Commissioners.....	179	171	8
28	28	—	Canadian Maritime Commission.....	27	28	(1)
Atlantic Development Board—						
23	14	9	Programming Division.....	22	13	9
15	—	15	Planning Division.....	14	—	14
17,065	16,229	836		16,119	15,345	774

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
			DEPARTMENTS—Concluded			
			Veterans Affairs—			
1,346	1,355	(9)	Administration.....	1,244	1,266	(22)
10,870	10,824	46	Treatment Services.....	10,403	10,397	6
758	789	(31)	Welfare Services.....	712	734	(22)
360	359	1	Pensions Administration.....	332	332	—
679	680	(1)	Veterans' Land Act Administration.....	629	637	(8)
14,013	14,007	6		13,320	13,366	(46)
224,465	217,302	7,163	Total, Departments.....	208,731	200,516	8,215
			CROWN CORPORATIONS (Notes 1 and 2)—			
			Air Canada—			
			Operations Department—			
			Flying personnel.....	1,698	1,408	290
			Other personnel.....	6,909	6,360	549
			Sales Department.....	3,043	2,758	285
			Purchases and Stores Department.....	570	555	15
			Finance Department.....	552	492	60
			All other.....	338	336	2
13,110	11,909	1,201		13,110	11,909	1,201
			Atomic Energy of Canada Limited—			
			Head Office.....	17	15	2
2,483	2,420	63	Chalk River Nuclear Laboratories.....	2,313	2,258	55
477	397	80	Commercial Products Division.....	477	397	80
467	347	120	Whiteshell Nuclear Research Establishment.....	421	312	109
454	293	161	Power Projects.....	406	293	113
180	139	41	Temporary—Construction workers, nurses, etc.....	180	139	41
4,080	3,611	469		3,814	3,414	400
			Canadian Arsenal Limited—			
			Head Office.....	27	35	(8)
			Filling Division.....	398	296	102
			Explosives Division.....	—	216	(216)
			Dominion Arsenal Division.....	354	433	(79)
1,007	1,185	(178)	Small Arms Division.....	228	205	23
				1,007	1,185	(178)
			Canadian Broadcasting Corporation—			
			Head Office.....	502	491	11
556	540	16	Expo '67.....	21	—	21
27	—	27	National Engineering.....	290	274	16
335	319	16	Regional Offices.....	7,325	7,216	109
7,547	7,406	141	Northern and Armed Forces Services.....	91	84	7
101	95	6	International Service.....	184	173	11
184	182	2		8,413	8,238	175
8,750	8,542	208				
			Canadian Corporation for the 1967 World Exhibition—			
			Administrative—			
			Executive.....	15	15	—
17	15	2	Secretariat.....	58	36	22
63	47	16	Finance and Administration.....	151	114	37
184	133	51	Installations.....	322	191	131
356	247	109	Exhibitors.....	64	50	14
76	57	19	Public Relations.....	99	57	42
134	93	41	Operations.....	116	78	38
161	108	53				
			Operating—			
			Finance and Administration.....	23	—	23
47	5	42	Installations.....	31	3	28
84	15	69	Operations.....	44	2	42
133	11	122	La Ronde.....	25	—	25
52	—	52	Safety and Security.....	62	—	62
245	—	245		1,010	548	464
1,552	731	821				

AUDITOR GENERAL'S REPORT

SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Continued

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
CROWN CORPORATIONS—Continued						
—	2	(2)	Canadian Commercial Corporation.....	—	2	(2)
Canadian National Railways—						
			General.....	11,415	11,321	94
			Road Maintenance.....	15,057	15,317	(260)
			Equipment Maintenance.....	18,700	18,766	(66)
			Transportation.....	35,885	34,992	893
			Other Operations.....	9,319	9,817	(498)
90,376	90,213	163		90,376	90,213	163
Canadian Overseas Telecommunication Corporation—						
			Administrative.....	110	97	13
			Head Office Engineering.....	61	57	4
			Traffic Representatives.....	12	12	—
			Operating.....	485	426	59
668	592	76		668	592	76
Canadian Patents and Development Limited— (Staff seconded from National Research Council)....						
13	4	9		13	4	9
192	85	107	Centennial Commission.....	125	66	59
Central Mortgage and Housing Corporation—						
			Regular.....	1,950	1,968	(18)
			Contract and Casual.....	65	68	(3)
2,015	2,036	(21)		2,015	2,036	(21)
126	106	20	Crown Assets Disposal Corporation.....	115	106	9
Defence Construction (1951) Limited—						
			Administration.....	101	103	(2)
			Engineers.....	36	43	(7)
			Technical.....	67	51	16
204	197	7		204	197	7
34	33	1	Eldorado Aviation Limited.....	34	33	1
Eldorado Mining and Refining Limited—						
			Head Office and General Administration.....	33	37	(4)
			Beaverlodge Division.....	533	528	5
			Refinery and Sales.....	157	157	—
			Research and Development.....	58	63	(5)
781	785	(4)		781	785	(4)
77	71	6	Export Credits Insurance Corporation.....	70	67	3
Farm Credit Corporation—						
4	3	1	Executive Officers.....	4	3	1
13	12	1	Senior Management Officers.....	13	12	1
318	298	20	Technical.....	283	260	23
9	11	(2)	Professional.....	9	11	(2)
6	3	3	Specialist.....	5	3	2
286	267	19	Supervisory, Clerical and Stenographic.....	257	240	17
636	594	42		571	529	42
20	20	—	The National Battlefields Commission.....	16	20	(4)
National Capital Commission—						
44	36	8	Administrative and Accounting.....	39	32	7
46	46	—	Planning, Property Acquisition and Management....	42	43	(1)
68	63	5	Landscape Architecture, Engineering, Construction and Maintenance.....	63	57	6
665	662	3	Prevailing rate (permanent and seasonal) and special projects employees.....	448	438	10
823	807	16		592	570	22

AUDITOR GENERAL'S REPORT

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SUMMARY OF EMPLOYEES OF THE PUBLIC SERVICE—Concluded

Employees Authorized			Name of Department, Crown Corporation or Other Instrumentality	Employees on Strength		
March 1966	March 1965	Increase (Decrease)		March 1966	March 1965	Increase (Decrease)
			CROWN CORPORATIONS—Concluded			
			National Harbours Board—			
			Head Office.....	59	61	(2)
			Harbours and Elevators—			
			Salaried.....	825	818	7
2,290	2,246	44	Prevailing rate.....	1,406	1,367	39
				2,290	2,246	44
			Northern Canada Power Commission—			
			Head and Edmonton Offices.....	45	42	3
250	245	5	Field Locations.....	205	203	2
				250	245	5
44	38	6	Northern Transportation Company Limited.....	44	38	6
			Polymer Corporation Limited and subsidiary com- panies—			
1,648	1,442	206	Salaried.....	1,527	1,367	160
2,342	2,140	202	Hourly rate.....	2,270	2,091	179
3,990	3,582	408		3,797	3,453	339
			The St. Lawrence Seaway Authority—			
			Administrative and Engineering.....	427	344	83
			Operations.....	807	694	113
1,682	1,466	216	Maintenance.....	448	428	20
				1,682	1,466	216
18	18	—	The Seaway International Bridge Corporation, Ltd....	18	18	—
132,738	129,118	3,620	Total, Crown Corporations.....	131,015	127,983	3,032
			OTHER INSTRUMENTALITIES—(Notes 1 and 2)			
1,129	1,072	57	Bank of Canada.....	1,129	1,072	57
41	32	9	The Canada Council.....	41	32	9
569	580	(11)	The Canadian Wheat Board.....	569	580	(11)
8	10	(2)	The Custodian.....	8	10	(2)
583	522	61	Industrial Development Bank.....	583	522	61
986	918	68	National Film Board.....	877	828	49
3,316	3,134	182	Total, Other Instrumentalities.....	3,207	3,044	163
360,519	349,554	10,965	TOTAL, DEPARTMENTS, CROWN CORPORATIONS AND OTHER INSTRUMENTALITIES.....	342,953	331,543	11,410

NOTES:

- (1) The figures appearing in these listings are based on information provided by the various departments, Crown corporations and other instrumentalities. They include the numbers of seasonal, part-time and casual employees actually on strength at March 31, 1965 and March 31, 1966. For purposes of comparison these have been included in the figures shown for "Employees Authorized".
- (2) Where no establishments have been authorized by the executive boards of certain Crown corporations or other instrumentalities, the totals of the actual strength figures have been shown in the "Employees Authorized" columns for purposes of comparison.

**SUMMARY OF EXPENDITURE BY STANDARD OBJECTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1966**

(with comparative figures for the preceding fiscal year)
(in millions of dollars)

	1965-66	1964-65	Increase or decrease (-)
Civil salaries and wages.....	\$ 1,043.6	\$ 951.8	\$ 91.8
Civilian allowances.....	21.9	18.8	3.1
Pay and allowances, Defence Forces and Royal Canadian Mounted Police.....	630.6	606.9	23.7
Professional and special services.....	121.6	99.7	21.9
Travelling and removal expenses.....	72.1	67.1	5.0
Freight, express and cartage.....	9.6	10.0	-.4
Postage.....	7.8	7.1	.7
Telephones, telegrams and other communication services.....	39.4	39.6	-.2
Publication of departmental reports and other material.....	12.8	11.2	1.6
Exhibits, advertising, films, broadcasting and displays.....	26.0	18.0	8.0
Office stationery, supplies, equipment and furnishings.....	34.8	27.6	7.2
Materials and supplies.....	170.0	177.3	-7.3
Buildings and works, including land—			
Construction or acquisition.....	292.5	244.6	47.9
Repairs and upkeep.....	70.9	66.9	4.0
Rentals.....	24.0	19.9	4.1
Equipment—			
Construction or acquisition.....	287.0	283.4	3.6
Repairs and upkeep.....	155.2	156.5	-1.3
Rentals.....	6.9	6.3	.6
Municipal or public utility services.....	78.7	77.1	1.6
Contributions, grants, subsidies, etc., not included elsewhere.....	1,021.8	838.3	183.5
Pensions, superannuation and other benefits.....	203.4	176.0	27.4
All other expenditure (other than special categories).....	215.7	194.8	20.9
Interest on public debt, etc.....	1,110.8	1,051.3	59.5
Subsidies and special payments to the provinces.....	466.0	358.4	107.6
Family allowances, family assistance and youth allowances payments.....	601.0	574.7	26.3
Old age assistance, blind persons and disabled persons allowances and unemployment assistance.....	147.3	181.5	-34.2
Veterans' disability pensions, etc.....	185.5	180.3	5.2
Other payments to veterans and dependents.....	113.2	104.4	8.8
Government's contribution to the Unemployment Insurance Fund.....	65.7	62.2	3.5
Hospital insurance and general health grants.....	365.1	490.6	-125.5
Trans-Canada Highway contributions.....	83.4	76.1	7.3
Movement of mail by land, air and water.....	72.2	68.7	3.5
Deficits—government-owned enterprises.....	50.2	54.0	-3.8
	7,806.7	7,301.1	505.6
Less: Expenditure recovered.....	71.9	82.8	-10.9
Net total expenditure.....	\$ 7,734.8	\$ 7,218.3	\$ 516.5

EXHIBITS

(as published in the Public Accounts)

- Statement of Expenditure and Revenue for the fiscal year ended March 31, 1966 (with comparative figures for the preceding fiscal year) Exhibit 1
- Statement of Assets and Liabilities as at March 31, 1966 (with comparative figures as at March 31, 1965) Exhibit 2
- Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1966 Exhibit 3
- Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1966 Exhibit 4

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR

(with comparative figures for

EXPENDITURE

	Fiscal year ended	
	March 31, 1966	March 31, 1965
Agriculture.....	\$ 186,263,616	\$ 165,723,844
Atlantic Development Board.....	23,755,359	4,294,152
Atomic Energy.....	54,450,175	46,564,793
Auditor General's Office.....	1,741,901	1,589,889
Board of Broadcast Governors.....	382,787	367,645
Canada Emergency Measures Organization.....	7,744,257	7,653,868
Canadian Broadcasting Corporation.....	97,458,915	87,969,198
Central Mortgage and Housing Corporation.....	21,571,958	14,952,238
Office of the Chief Electoral Officer.....	12,953,140	578,175
Citizenship and Immigration.....	238,567,080	180,996,919
Civil Service Commission.....	7,986,854	6,226,358
Defence Production.....	23,438,183	22,827,469
Economic Council.....	1,116,362	833,874
External Affairs.....	152,545,955	131,186,586
Finance—		
Public debt charges.....	1,110,857,197	1,051,290,597
Fiscal, tax-sharing, subsidy and other payments to provinces.....	465,993,282	358,357,022
Other expenditure.....	273,828,954	212,994,726
	<u>1,850,679,433</u>	<u>1,622,642,345</u>
Fisheries.....	34,526,476	25,593,261
Forestry.....	57,134,577	49,754,438
Governor General and Lieutenant-Governors.....	690,556	648,703
Industry.....	29,301,149	23,788,581
Insurance.....	1,512,059	1,445,862
Justice.....	11,367,814	10,644,700
Labour.....	23,993,711	23,402,111
Legislation.....	14,711,823	14,214,867
Mines and Technical Surveys.....	107,357,514	94,324,195
National Capital Commission.....	18,621,111	10,354,431
National Defence—		
Defence services.....	1,363,042,550	1,362,117,636
Defence research and development.....	72,579,782	54,531,462
Other expenditure.....	112,824,452	121,185,765
	<u>1,548,446,784</u>	<u>1,537,834,863</u>
National Film Board.....	6,891,335	6,353,633
National Gallery of Canada.....	1,815,626	1,303,734
National Health and Welfare—		
Family allowances.....	551,734,824	545,775,231
Other expenditure.....	623,387,205	754,823,195
	<u>1,175,122,029</u>	<u>1,300,598,426</u>
National Research Council, including the Medical Research Council.....	74,387,029	56,641,725
National Revenue.....	94,971,980	86,908,544
Northern Affairs and National Resources.....	156,433,733	127,306,117
Post Office.....	240,206,458	210,458,702
Privy Council.....	8,981,878	8,175,312
Public Archives and National Library.....	1,973,514	1,507,268
Public Printing and Stationery.....	3,053,651	2,732,686
Public Works.....	256,526,107	224,057,562
Office of the Representation Commissioner.....	774,892	224,521
Royal Canadian Mounted Police.....	81,958,846	76,198,876
Secretary of State.....	23,996,532	21,909,880
Solicitor General.....	56,875,181	39,278,001
Trade and Commerce.....	46,073,789	54,796,650
Transport.....	508,743,513	466,519,143
Unemployment Insurance Commission.....	98,037,727	94,792,046
Veterans Affairs—		
Pensions.....	185,559,325	180,326,163
Other expenditure.....	184,092,831	171,772,198
	<u>369,652,156</u>	<u>352,098,361</u>
Total expenditure.....	<u>7,734,795,525</u>	<u>7,218,274,552</u>
Budgetary deficit.....	<u>—38,975,321</u>	<u>—37,964,765</u>
	<u>7,695,820,204</u>	<u>7,180,309,787</u>

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

OF CANADA

EXHIBIT 1

THE FISCAL YEAR ENDED MARCH 31, 1966
the preceding fiscal year)

REVENUE

	Fiscal year ended	
	March 31, 1966	March 31, 1965
Tax revenues—		
Income tax—		
Personal ⁽¹⁾	\$2,142,456,230	\$2,103,281,917
Corporation ⁽¹⁾	1,606,620,322	1,523,814,601
On dividends, interest, etc., going abroad.....	170,018,708	143,717,945
Excise taxes—		
Sales ⁽¹⁾	1,395,128,921	1,204,609,934
Other.....	296,178,098	269,082,084
Customs import duties.....	685,519,390	622,101,883
Excise duties.....	445,885,434	411,402,145
Estate tax ⁽²⁾	108,352,377	88,625,641
Miscellaneous.....	160,612	140,100
	<u>6,850,320,092</u>	<u>6,366,776,260</u>
Non-tax revenues—		
Return on investments.....	438,254,129	422,693,741
Post Office—net postal revenue.....	237,482,296	230,435,714
Refunds of previous years' expenditure.....	18,918,607	20,545,944
Services and service fees.....	63,147,602	60,924,531
Proceeds from sales.....	22,934,877	24,250,122
Privileges, licences and permits.....	38,965,653	30,824,939
Bullion and coinage.....	11,217,545	12,298,922
Premium, discount and exchange.....	125,538	
Miscellaneous.....	14,453,865	11,559,624
	<u>845,500,112</u>	<u>813,533,537</u>

⁽¹⁾Excluding tax credited to the old age security fund—

	1965-66	1964-65
Personal income tax.....	\$494,900,000	\$431,900,000
Corporation income tax.....	152,250,000	145,250,000
Sales tax.....	522,085,844	383,151,254

⁽²⁾Includes duties levied under the Dominion Succession Duty Act.

Total revenue	7,695,820,204	7,180,309,787
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1966.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT
STATEMENT OF ASSETS AND
(with comparative figures)

ASSETS

	March 31, 1966	March 31, 1965	Net increase or decrease (—) during 1965-66
1. Current assets—			
(a) Cash, schedule A, page 9.....	\$ 759,080,004	\$ 850,282,135	\$ -91,202,131
(b) Departmental working capital advances, schedule B, page 9..	120,576,475	133,404,495	-12,828,020
(c) Securities held for the securities investment account at amor- tized cost	81,475,697	62,561,070	18,914,627
(d) Other current assets, schedule C, page 10	54,861,735 1,015,998,911	29,134,994 1,075,382,694	25,726,741 -69,388,783
2. Blocked currency	1,002,400		1,002,400
3. Advances to the exchange fund account—(value of investments from advances on basis of official parity rate March 31, 1966, \$2,728,743,488; official parity rate March 31, 1965, \$2,653,406,754)	2,696,000,000	2,621,000,000	75,000,000
4. Investments in special United States of America securities— Columbia River Treaty	187,191,661	219,479,161	-32,287,500
5. Canada pension plan investment fund, schedule D, page 11	34,853,000		34,853,000
6. Loans to, and investments in, Crown corporations, schedule F, page 11	5,553,149,458	4,948,235,201	604,914,257
Recovery likely to require parliamentary appropriations	105,925,113 5,659,074,571	48,065,976 4,996,301,177	57,859,137 662,773,394
7. Loans to national governments, schedule G, page 13	1,215,490,449	1,195,888,072	19,602,377
Recovery likely to require parliamentary appropriations	9,722,194 1,225,212,643	10,688,479 1,206,576,551	-966,285 18,636,092
8. Other loans and investments, schedule H, page 14—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations	724,695,231	709,753,536	14,941,695
(b) Loans to provincial governments	96,723,106	98,435,806	-1,712,700
(c) Veterans land act fund (less reserve for conditional benefits) ..	256,191,461	232,068,630	24,122,831
(d) Miscellaneous	181,395,361	96,023,632	85,371,729
Recovery likely to require parliamentary appropriations ..	4,207,529 1,263,212,688	3,846,285 1,140,127,889	361,244 123,084,799
9. Securities held in trust, schedule I, page 18	51,956,505	43,585,370	8,371,135
10. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	53,601,200	53,761,600	-160,400
Public service superannuation account	93,620,600	39,920,800	53,699,800
Royal Canadian Mounted Police superannuation account	3,115,200	4,153,600	-1,038,400
(b) Unamortized loan flotation costs, appendix No. 7, Section 9, page 15	106,217,789 256,554,789	110,749,442 208,685,442	-4,531,653 47,969,347
11. Capital assets	1	1	
12. Inactive loans and investments, schedule J, page 18	94,824,381	94,824,381	
Total recorded assets	12,485,876,550	11,605,862,666	880,013,884
13. Less: Reserve for losses on realization of assets	-546,384,065	-546,384,065	
Net recorded assets	11,939,492,485	11,059,478,601	880,013,884
14. Net debt, represented by excess of liabilities over net recorded assets, schedule K, page 19	15,543,447,865	15,504,472,544	38,975,321
	27,482,940,350	26,563,951,145	918,989,205

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

H. R. BALLS,
Comptroller of the Treasury.

R. B. BRYCE,
Deputy Minister of Finance.

(This Statement, the schedules referred to therein, and the pages referred to in the two notes, are to be found in the Public Accounts, Volume I, Section 7)

OF CANADA

EXHIBIT 2

LIABILITIES AS AT MARCH 31, 1966
as at March 31, 1965)

LIABILITIES

	March 31, 1966	March 31, 1965	Net increase or decrease (—) during 1965-66
15. Current and demand liabilities, schedule L, page 19—			
(a) Outstanding treasury cheques.....	\$ 332,859,574	\$ 315,077,232	\$ 17,782,342
(b) Accounts payable (that portion paid in April of the next following fiscal year).....	380,308,616	363,925,315	16,383,301
(c) Non-interest-bearing notes payable to the international monetary fund and the international development association....	255,388,518	367,897,531	-112,509,013
(d) Matured debt outstanding.....	27,324,686	19,140,916	8,183,770
(e) Interest due and outstanding.....	110,930,898	102,034,032	8,896,866
(f) Interest accrued.....	254,292,555	231,173,522	23,119,033
(g) Other current liabilities.....	37,731,247	33,367,648	4,363,599
	1,398,836,094	1,432,616,196	-33,780,102
16. Deposit and trust accounts, schedule M, page 21.....	310,728,861	262,837,026	47,891,835
17. Annuity, insurance and pension accounts, schedule N, page 25....	6,392,132,945	5,675,840,853	716,292,092
18. Undisbursed balances of appropriations to special accounts, schedule O, page 25.....	101,945,175	95,702,607	6,242,568
19. Deferred credits, schedule P, page 26.....	138,119,215	113,208,312	24,910,903
20. Suspense accounts, schedule Q, page 26.....	31,390,931	5,531,972	25,858,959
21. Unmatured debt, schedule R, page 28—			
(a) Bonds.....	16,959,787,129	16,838,214,179	121,572,950
(b) Treasury bills.....	2,150,000,000	2,140,000,000	10,000,000
	19,109,787,129	18,978,214,179	131,572,950

NOTE:

The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest, \$1,331,547,986; other guarantees of \$7,321,187,000; together with certain indeterminate guarantees, are listed on page 84.

Total liabilities.....	27,482,940,350	26,563,951,145	918,989,205
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Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1966.

A. M. HENDERSON,
Auditor General.

**SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES
BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1966**

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward ⁽¹⁾
		\$	\$	\$	\$
1	Agriculture.....	198,585,852	186,263,616	12,322,236	
2	Atlantic Development Board.....	31,973,389	23,755,359	313,477	7,904,553
3	Atomic Energy.....	55,313,400	54,450,175	863,225	
4	Auditor General's Office.....	1,873,100	1,741,901	131,199	
5	Board of Broadcast Governors.....	493,000	382,787	110,213	
6	Canada Emergency Measures Organization..	9,744,400	7,744,257	2,000,143	
7	Canadian Broadcasting Corporation.....	99,444,000	97,458,915	1,985,085	
8	Central Mortgage and Housing Corporation..	21,571,959	21,571,958	1	
9	Office of the Chief Electoral Officer.....	12,961,043	12,953,140	7,903	
10	Citizenship and Immigration.....	(2) 297,638,950	238,567,080	19,901,413	39,170,457
11	Civil Service Commission.....	8,277,300	7,986,854	290,446	
12	Defence Production.....	24,799,100	23,438,183	1,360,917	
13	Economic Council.....	1,147,400	1,116,362	31,038	
14	External Affairs.....	160,838,081	152,545,955	8,292,126	
15	Finance.....	1,880,166,082	1,850,679,433	3,148,089	26,338,560
16	Fisheries.....	37,532,177	34,526,476	3,005,701	
17	Forestry.....	62,323,225	57,134,577	5,188,648	
18	Governor General and Lieutenant-Governors	717,567	690,556	27,011	
19	Industry.....	36,024,601	29,301,149	6,723,452	
20	Insurance.....	1,516,586	1,512,059	4,527	
21	Justice.....	11,490,833	11,367,814	123,019	
22	Labour.....	(3) 45,028,728	23,993,711	5,647,017	15,388,000
23	Legislation.....	14,794,680	14,711,823	82,857	
24	Mines and Technical Surveys.....	110,649,210	107,357,514	3,284,196	7,500
25	National Capital Commission.....	18,924,400	18,621,111	303,289	
26	National Defence.....	1,579,250,933	1,548,446,784	30,804,149	
27	National Film Board.....	6,892,900	6,891,335	1,565	
28	National Gallery of Canada.....	1,879,900	1,815,626	64,274	
29	National Health and Welfare.....	1,184,796,961	1,175,122,029	9,674,932	
30	National Research Council including the Medical Research Council.....	75,185,901	74,387,029	798,872	
31	National Revenue.....	96,328,017	94,971,980	1,356,037	
32	Northern Affairs and National Resources...	160,342,450	156,433,733	3,908,717	
33	Post Office.....	241,925,905	240,206,458	1,719,447	
34	Privy Council.....	9,289,734	8,981,878	307,856	
35	Public Archives and National Library.....	2,018,800	1,973,514	45,286	
36	Public Printing and Stationery.....	3,409,500	3,053,651	355,849	
37	Public Works.....	262,200,838	256,526,107	5,674,731	
38	Office of the Representation Commissioner..	774,892	774,892		
39	Royal Canadian Mounted Police.....	82,656,234	81,958,846	697,388	
40	Secretary of State.....	27,839,769	23,996,532	3,843,237	
41	Solicitor General.....	58,131,554	56,875,181	1,256,373	
42	Trade and Commerce.....	52,508,836	46,073,789	6,435,047	
43	Transport.....	535,387,511	508,743,513	26,643,998	
44	Unemployment Insurance Commission.....	99,002,265	98,037,727	964,538	
45	Veterans Affairs.....	374,321,645	369,652,156	4,669,489	
		(4) 7,997,973,608	7,734,795,525	174,369,013	88,809,070

(1) Available for expenditure in 1966-67.

(2) Includes \$3,290,764 carried forward from vote 5 and \$26,318,305 carried forward from vote 6b of Department of Labour 1964-65 estimates.

(3) Includes \$12,463,500 carried forward from vote 8b Department of Labour 1964-65 estimates.

(4) In addition, parts of appropriations in the amount of \$5,089,836 in respect of the Department of Agriculture and expenditures in a similar amount were transferred to "other loans and investments".

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1966.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1966

Section (Volume II)	Department	Tax revenues \$	Return on investments \$	Bullion and coinage \$	Postal revenue \$	Privileges, licences and permits \$	Proceeds from sales \$	Services and service fees \$	Refunds of previous years' expenditure \$	Mis- cellaneous \$	Premium, discount and exchange \$	Total \$
1	Agriculture.....		589,218			1,617,577	1,431,935	8,681,513	50,661	92,783		12,463,687
3	Atomic Energy.....		403,736									403,736
4	Auditor General's Office.....											1,187
5	Board of Governors.....							453				35
6	Canada Emergency Measures Organization.....											50,135
7	Canadian Broadcasting Corporation.....					13,231	5,459	584	21,403	9,458		7,598
8	Central Mortgage and Housing Corporation.....		107,842,851			7,598	4,785,528		562,895	1,665,373		114,555,347
9	Office of the Chief Electoral Officer.....									96,820		96,820
10	Civil Service Commission.....		1,524			496,576	37,650	30,162	1,352,045	173,413		2,091,370
11	Defence Production.....		5,537,597					113	25,734	77,075		13,302,727
12	Economic Council of Canada.....											2,148,353
13	External Affairs.....								98,203	59,041		310,927,349
14	Finance.....		767,487			1,185,521	23,051	14,946	504,336	1,188,356	125,538	1,280,782
15	Fisheries.....		292,944,020	11,217,545		186,637	187,026	66	10,151	60,171		188,871
16	Forestry.....		809,816			136,167	32,986	5,005	2,498,035	399		2,498,035
17	Industry.....								3,813	321,565		1,004,895
18	Insurance.....	157,854							3,813	1,502,792		351,051
19	Justice.....					12,490	4,594	1,860	11,710	56,895		1,524,735
20	Labour.....		3,779			161,500		3,555	71	222,031		2,508,543
21	Mines and Technical Surveys.....		1,028,379			436,475	685,822	59,141	60,313	19,413		2,508,543
22	National Defence.....		2,049,771			1,648,682	2,327,811	1,884,517	6,019,983	1,103,096		15,033,860
23	National Film Board.....								32,683			32,683
24	National Gallery of Canada.....								202	5,018		5,220
25	National Health and Welfare.....								985,844	249,120		6,602,592
26	National Research Council including Medical Research Council.....					316,312	209,582	4,841,734				
27	National Revenue.....		92						56,054	1,715		57,861
28	Northern Affairs and National Resources.....	6,850,159,480	3,092			195,204	117,266	380,445	35,903	4,249,636		6,855,161,026
29	Post Office.....	2,758	593,380			10,972,845	1,661,329	827,897	1,119,248	701,389		15,910,846
30	Privy Council.....		547				8		12,280	43,094		237,538,586
31	Public Archives and National Library.....					2,405,903	17,712	275,848		10,812		2,710,584
32	Public Printing and Stationery.....		445						4,509			15,691
33	Royal Canadian Mounted Police.....					26,616	1,826,185	18,410		48,012		1,920,123
34	Secretary of State.....		12,178			3,052,464	38,671	1,243,115	432,665	914,046		3,680,961
35	Solicitor General.....					795,233	468,303	16,366,680	197,714	155,986		17,996,096
36	Trade and Commerce.....		234,443			436,436	3,184	106,692	4,463	12,203		653,008
37	Transport.....		6,734,168			70,161	348,219	4,422	23,724	5,094		10,039,293
38	Unemployment Insurance Commission.....		9,635,048			35,279	25,861	2,470,750	21,348	674,420		45,946,688
39	Veterans Affairs.....		9,102,558			14,965,335	1,222,382	19,106,975	779,931	237,015		572,938
40						30,412	35,072		10,087	562,871		13,240,880
41		6,850,320,092	438,254,129	11,217,545	237,482,296	38,905,633	22,934,877	63,147,602	18,918,607	14,453,865	125,538	7,695,820,204

H. R. BALLS,
Comptroller of the Treasury.

Auditor General's Certificate

The accounts relating to the revenues as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion the Statement gives a correct summary for the year ended March 31, 1966.

A. M. HENDERSON,
Auditor General.

(The sections referred to in the above Summary are those in the Public Accounts, Volume II)

BINDING SECT. OCT 14 1981

